OFFICE OF THE
Auditor General
of British Columbia

BACKGROUNDER

JULY 20, 2005

Audit of Gaming Integrity in Casinos

Gaming integrity defined
Gaming integrity includes the control processes used to help ensure that error, criminal exploitation and employee dishonesty in gaming operations is minimized.

The importance of gaming integrity
Significant consequences for government if it fails to ensure gaming integrity include:

- organized crime and dishonest individuals may become involved in the industry posing a threat to patrons and increasing the level of crime.
- a large number of patrons may lose confidence in the industry and stop visiting casinos leading to a significant reduction in government revenues.
- government may not receive all the revenue to which it is entitled.

Responsibilities for maintaining gaming integrity in B.C. casinos
The British Columbia Lottery Corporation (BCLC) and the Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General are responsible for gaming integrity in casinos. BCLC manages and conducts casino gaming through a partnership with private sector companies that provide day-to-day facility and operational services in compliance with BCLC's requirements. GPEB regulates casino gaming—it ensures that the provisions of the Gaming Control Act are met including ensuring the overall integrity of gaming in the province.

Measures used to maintain gaming integrity in casinos
The key measures used by BCLC and GPEB to maintain gaming integrity in casinos include ensuring that:

- casino industry participants meet high standards of honesty,
- casino gaming equipment operates fairly,
- casino gaming activities are conducted honestly, and
- casino revenue is properly recorded and government receives its correct share.

Key facts about the casino industry in British Columbia

- 21 casinos operated during fiscal 2004/05—maximum allowed under the *Gaming Control Act* is 22.
- Casino revenue (after prize payouts) has grown significantly (2004/05: $893 million; 1999/00: $446 million) and accounts for an increasingly larger share of total gaming revenue—includes casinos, lotteries and bingos—(2004/05: 44%; 1999/00: 32%).
- The number of slot machines has grown significantly (2004/05: 6,324; 1999/00: 2,360) as has slot machine revenue (2004/05: $589 million; 1999/00: $231 million).
- The number of table games has grown more slowly than slot machines (2004/05: 453; 1999/00:402) as has table game revenue (2004/05: $304 million; 1999/00: $215 million).
- Host local governments' revenue from casinos has increased (2004/05: $53 million: 1999/00: $20 million).
- About 7,200 people are employed by B.C. casinos and a further 1,000 by ancillary casino service providers.

2005/2006: Report 5

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Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos

July 2005

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Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos

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LOCATION:
8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:
Monday to Friday
8:30 a.m. – 4:30 p.m.

TELEPHONE:
250 387–6803
Toll free through Enquiry BC at: 1 800 663–7867
In Vancouver dial 660–2421

FAX: 250 387–1230

E-MAIL: bcauditor@bcauditor.com

WEBSITE:
This report and others are available at our Website, which also contains further information about the Office: http://bcauditor.com

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OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 387-6803
Facsimile: 250 387-1230
Website: http://bcauditor.com

Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2005/2006 Report 5 Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
July 2005

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Acknowledgements

Audit Team

Assistant Auditor General:
Russ Jones

Director:
Wayne Schmitz

Project Leaders:
Bruce Perry
Jagdip Mann

Auditor General's Comments

Wayne Strelioff, FCA
Auditor General

Commercial gaming—including lotteries, casinos and bingos—is a significant industry in British Columbia. The provincial gaming industry employs thousands of citizens and in the 2005/06 fiscal year it will provide more than $800 million to the province and municipalities. In recent years, growth in casino gaming has outpaced other forms of gaming and this trend is projected to continue.

In British Columbia, government has the challenging task of ensuring gaming integrity in casinos is maintained (that is, that error, criminal exploitation and employee dishonesty in casinos is minimized). Responsibility for ensuring gaming integrity in casinos rests with two government organizations. The British Columbia Lottery Corporation (BCLC) is charged with managing and conducting casino gaming, which it does through a partnership with private sector companies. These companies provide day-to-day facility and operational services in compliance with BCLC's requirements. The Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General is responsible for regulating casino gaming.

Three potentially significant consequences exist for government if it fails to adequately ensure gaming integrity in casinos:

- Unsavoury elements (e.g., organized crime and dishonest individuals) may become involved in the industry posing a threat to patrons and increasing the level of crime.
- A large number of patrons may lose confidence in the industry and stop visiting casinos leading to a significant reduction in government revenues.
- Government may not receive all the revenue to which it is entitled.

The purpose of our audit was to assess whether the government is adequately managing gaming integrity risks in casinos. Specifically, we wanted to know if government is adequately ensuring that:

- casino industry participants meet high standards of honesty,
- casino gaming equipment operates fairly,
- casino gaming activities are conducted honestly, and

Auditor General's Comments

- government is receiving its correct share of casino gaming revenue.

Our audit was carried out between September 2004 and January 2005. We focused on the casinos in operation during that time period. We did not examine community gaming centres that have recently started to include slot machines as part of their operations. The quantitative information we provide was drawn from various British Columbia Lottery Corporation and Gaming Policy and Enforcement Branch sources indicated in the text. Although we checked the information for reasonableness, we did not audit it.

Our examination was performed in accordance with assurance standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures we considered necessary in the circumstances.

Overall Conclusion

We concluded that government is adequately managing gaming integrity risks in casinos. We found that adequate steps are taken to ensure that:

- casino industry participants meet high standards of honesty;
- gaming equipment operates fairly according to approved standards;
- gaming activities are conducted honestly; and
- government receives its correct share of casino revenue.

Nevertheless, we think that the British Columbia Lottery Corporation should improve the reporting it provides to its Board of Directors on the results of its operational gaming audit program and should strengthen surveillance in casinos. We also think that the Gaming Policy and Enforcement Branch should improve its casino-related processes, including participant registration, casino equipment certification, audit and compliance and public reporting. And, government should confirm that the highest priority of the General Manager of GPEB is ensuring the integrity of gaming in the province.

Key Findings

Government adequately ensures that those who work in, or provide services to, the casino gaming industry meet high standards of honesty

GPEB ensures that the right people work in the casino industry by:

- implementing adequate processes for assessing gaming worker and corporate applicants wishing to participate in the casino industry; and
- monitoring to ensure that, on an ongoing basis, those working in and providing services to casinos continue to meet high standards of honesty.

To improve, we think that GPEB should:

- require that its key employees and those of the BCLC have their backgrounds rechecked every three to five years as is currently the case for gaming workers and service providers; and
- require that all BCLC employees who help to ensure gaming integrity in casinos be registered by GPEB.

Government adequately ensures that gaming equipment operates fairly in casinos

Equipment is purchased from only approved suppliers and is only used in casinos after it has been independently tested against approved technical standards. Nevertheless, we think that GPEB could strengthen the process by obtaining additional assurance to support its reliance on independent test facilities and the BCLC Casino Quality Assurance Department.

Government adequately ensures that gaming activities are conducted honestly

The BCLC has implemented adequate policies and procedures to help ensure honest casino gaming activities. Also, adequate mechanisms are in place to ensure that the policies and procedures are consistently followed including BCLC supervisory staff stationed in casinos, BCLC ongoing casino audits, surveillance operations, GPEB annual audits of each casino and GPEB investigation of incidents posing a threat to gaming integrity. Areas where BCLC can improve include ensuring that:

- its Board of Directors is informed regularly of the results of its Operational Gaming Audit Program, focusing on casinos;

- surveillance personnel meet minimum standards of proficiency by implementing a certification program; and
- all casinos have approved surveillance system component plans in place.

We also think that GPEB should:

- produce more timely audit reports; and
- formally evaluate the key BCLC automated casino reporting systems and operational audit activities it relies on when conducting its annual casino audits.

Finally, government should confirm that ensuring the integrity of gaming in the province is the highest priority of GPEB's General Manager.

Government adequately ensures that it receives its correct share of casino revenue

BCLC has implemented adequate processes to ensure that government's share of casino revenue is complete, accurate and received. Among these processes:

- all casino gaming activities are recorded;
- cash is safeguarded at all times;
- casino gaming revenue is accurately recorded in its accounting records; and
- government's share of casino gaming revenue is collected from service providers.

GPEB accountability reporting needs strengthening

The primary responsibility of GPEB is to ensure the overall integrity of gaming in British Columbia. We found, however, that GPEB provides no accountability information on the state of gaming integrity. Given the growth of casino gaming in the province and the significant provincial revenue it generates, we think that the Legislative Assembly and public would benefit by receiving information on GPEB's assessment of the overall state of gaming integrity in provincial casinos.

Summary of Recommendations

Registration of industry participants

We recommend that:

1. key employees of GPEB and BCLC have their backgrounds rechecked every three to five years as is currently the case for gaming workers and service providers.
2. all BCLC employees who help to ensure gaming integrity in casinos be registered by GPEB.

Certification of gaming equipment

We recommend that:

3. GPEB ensure that technical standards specific to British Columbia be developed and adopted to govern the functioning of gaming equipment in provincial casinos.
4. GPEB obtain additional evidence to support its reliance on independent test facilities to evaluate BCLC gaming equipment.
5. GPEB periodically review the work of the BCLC Casino Quality Assurance group to support the branch's reliance on gaming equipment tests carried out by the group.

Conducting gaming activities

We recommend that:

6. BCLC update the public information it provides on its website pertaining to the odds of winning at slot machines.
7. BCLC report regularly to its Board of Directors on the results of the Operational Gaming Audit Program and each casino's state of compliance with prescribed policies and procedures.
8. BCLC implement the Surveillance Certification Program at the earliest possible date.
9. BCLC ensure that all casinos have approved Surveillance System Component Plans in place.
10. GPEB's Audit and Compliance group produce more timely audit reports.

11. **GPEB's Audit and Compliance group obtain direct evidence to support its reliance on BCLC's automated casino reporting systems.**

12. **the integrity of gaming be confirmed as the primary responsibility of GPEB's General Manager.**

13. **GPEB report annually to the Legislative Assembly on the state of gaming integrity in provincial casinos.**

Collecting gaming revenue

No recommendations made.

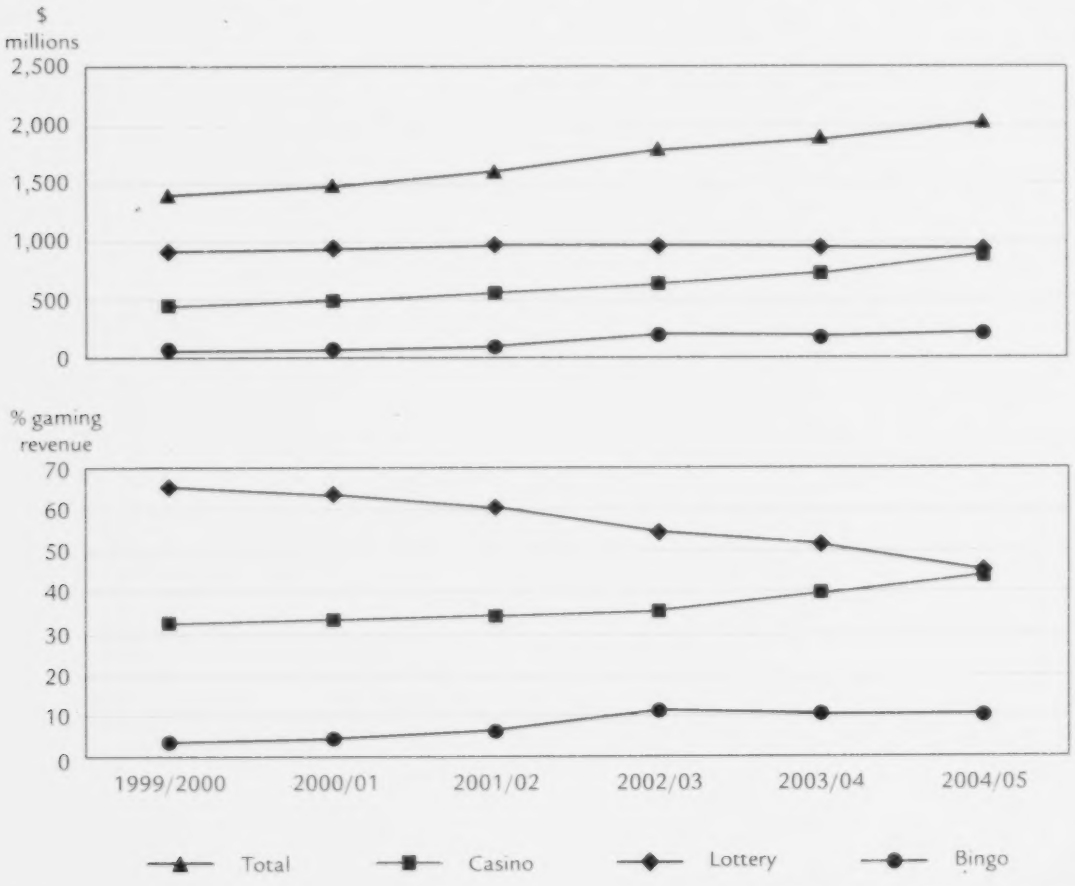
Detailed Report

Commercial gaming in British Columbia

Commercial gaming—including lotteries, casinos and bingos—is a significant industry in British Columbia. British Columbia Lottery Corporation (BCLC) estimates that the provincial gaming industry is responsible for more than 8,500 direct jobs and more than 5,000 indirect jobs within the province. Total revenue from BCLC's commercial gaming activities have grown from $1.4 billion in fiscal 1999/00 to about $2 billion in fiscal 2004/05 (Exhibit 1). At the same time, the provincial government's share of commercial gaming has also increased from $525 million in fiscal 1999/00 to $811 million in fiscal 2004/05 (Exhibit 2).

Exhibit 1

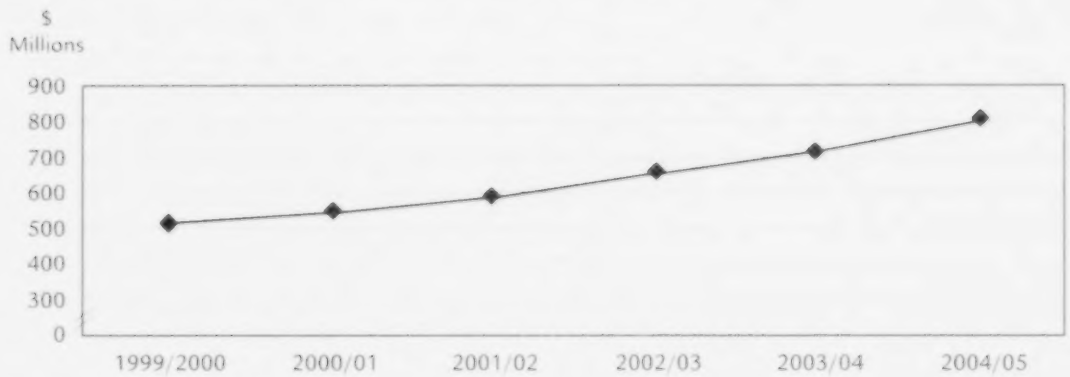
British Columbia Lottery Corporation gaming revenue, 1999/00–2004/05



Source: British Columbia Lottery Corporation

Exhibit 2

Provincial government's share of gaming revenue, 1999/00–2004/05



Source: British Columbia Lottery Corporation

Casino gaming in British Columbia

Casino gaming is a significant component of commercial gaming in British Columbia consisting of up to 22 casinos. During fiscal 2004/05, 21 casinos operated (Exhibit 3).

Casinos generate a significant amount of economic activity and the trend is increasing. Casino revenue (after prize payouts) in fiscal year 2004/05 was $893 million (Exhibit 1). This amount has increased steadily since fiscal year 1999/00, as has casino revenue as a percentage of total gaming revenue (Exhibit 1).

The nature of casino gaming is also changing. While the number of table games has remained relatively unchanged over recent years, the number of slot machines has grown significantly (Exhibit 4). Recently, the game of craps has been introduced in some casinos to meet patron demand, and patron interest in poker has increased concurrent with the televised broadcast of international poker tournaments in recent years.

Exhibit 3

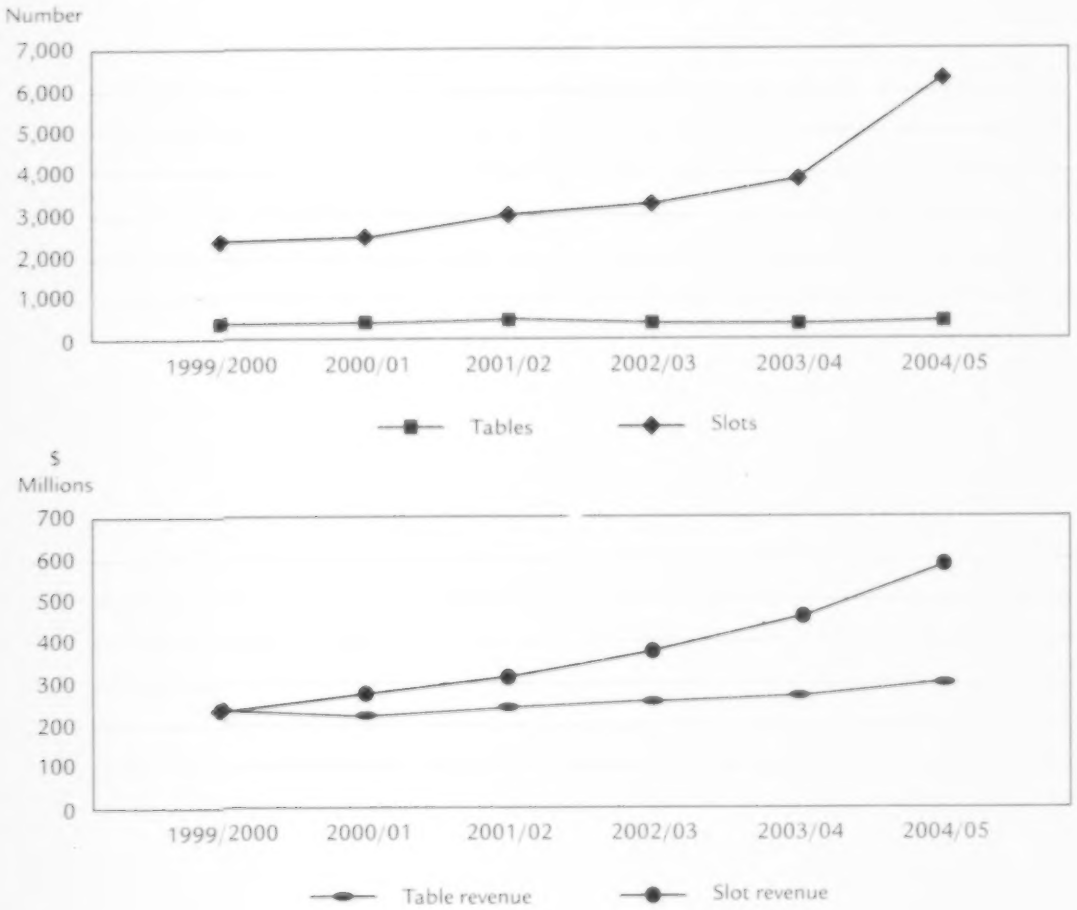
British Columbia Lottery Corporation casino revenue by source and location for the fiscal year ended March 31, 2005

Casino	Location	Slot machine revenue $	Slot machines #	Table game revenue $	Tables #	Combined casino revenue, March 31, 2005 $	Combined casino revenue, March 31, 2004 $
Great Canadian Casino	Richmond	77,574	1,000	110,524	80	188,098	56,279
Gateway Casino	Burnaby	88,361	679	43,915	33	132,276	129,851
Gateway Casino Royal Towers	New Westminster	16,343	169	12,286	24	28,629	35,953
Royal City Star Casino	New Westminster	26,902	352	8,115	20	35,017	49,178
Great Canadian Casino	Coquitlam	80,085	450	39,371	31	119,456	118,460
Grand Casino	Vancouver	–	–	12,141	30	12,141	23,158
Great Canadian Casino Holiday Inn	Vancouver	–	–	26,295	37	26,295	31,970
Great Canadian Casino Renaissance	Vancouver	–	–	1,241	22	1,241	7,691
Gateway Casino Mandarin Centre	Vancouver	–	–	16,158	32	16,158	17,937
Edgewater	Vancouver	5,780	600	4,836	44	10,616	–
Fraser Downs	Surrey	38,037	410	864	1	38,901	–
Great Canadian Casino	Nanaimo	41,330	380	4,780	12	46,110	42,322
Great Canadian Casino	View Royal	55,662	436	10,119	24	65,781	60,111
Lake City Casino	Kamloops	28,998	300	2,468	8	31,466	30,128
Lake City Casino	Kelowna	36,022	311	4,579	11	40,601	37,883
Lake City Casino	Vernon	23,462	210	1,447	8	24,909	23,824
Lake City Casino	Penticton	19,996	224	1,439	10	21,435	20,026
Casino of the Rockies	Cranbrook	10,806	224	965	9	11,771	11,381
Casino Hollywood	Prince George	29,818	359	2,337	12	32,155	27,201
Billy Barker Casino	Quesnel	9,339	140	414	5	9,753	9,873
Jack o' Clubs	Wells	71	80	–	–	71	259
TOTAL		**588,586**	**6,324**	**304,294**	**453**	**892,880**	**733,485**
% of TOTAL		**66%**		**34%**		**100%**	

Source: British Columbia Lottery Corporation

Exhibit 4

British Columbia Lottery Corporation casino revenue, 1999/00–2004/05



Source: British Columbia Lottery Corporation

Casino gaming activities are spread throughout all regions of the province, but most heavily concentrated in the Lower Mainland. (Exhibit 3). A local government's approval is needed before a gaming facility may be located or relocated within its boundaries. Host governments are entitled to receive a portion of gaming revenues from any casinos located within their boundaries—10% of net revenue from community casinos, and one-sixth of net revenues from destination casinos. In fiscal year 2004/05, host local governments' share of casino revenue totalled $53 million (Exhibit 5). The balance of provincial casino revenue is used to help fund provincial government programs.

Some differences in British Columbia's casino gaming compared with other provinces

Casino gaming in British Columbia differs in several important ways from that in most other provinces. For example:

- Casinos in British Columbia are generally smaller than in most other provinces.
- British Columbia doesn't allow slot machines in hotels, taverns and restaurants as in most other provinces.
- The maximum bet at a table game in British Columbia is $2,500 whereas Ontario's large casinos allow a maximum $5,000 bet.

Source: Gaming Policy and Enforcement Branch

Exhibit 5

Host local governments' share of casino revenue
for the fiscal year ended March 31, 2005

Local Government	Casino	2004/05 ($000)	2003/04 ($000)
Burnaby	Gateway Casino	7,550	7,523
Coquitlam	Great Canadian Casino	6,840	6,863
Kamloops	Lake City Casino	1,900	1,847
Kelowna	Lake City Casino	2,436	2,297
Surrey	Fraser Downs Casino	2,524	–
Ktunaxa/Kinbasket Tribal Council Society	Casino of the Rockies	1,112	1,009
Nanaimo	Great Canadian Casino	2,735	2,531
New Westminster	Gateway Casino Royal Towers	1,574	2,034
New Westminster	Royal City Star Casino	3,156	4,651
New Westminster Total		**4,730**	**6,685**
Penticton	Lake City Casino	2,166	2,047
Prince George	Casino Hollywood	1,932	1,663
Quesnel	Billy Barker Casino	600	607
Richmond	Great Canadian Casino	9,891	2,793
Vancouver	Grand Casino	587	1,128
Vancouver	Great Canadian Casino Holiday Inn	1,248	1,559
Vancouver	Gateway Casino Mandarin Centre	778	875
Vancouver	Great Canadian Casino Renaissance	61	372
Vancouver	Edgewater Casino	550	–
Vancouver Total		**3,224**	**3,934**
Vernon	Lake City Casino	1,514	1,477
View Royal	Great Canadian Casino	3,859	3,547
Wells	Jack o' Clubs	7	27
TOTAL		**53,020**	**44,850**

Source: British Columbia Lottery Corporation

Roles and responsibilities

The key legislation for gaming in British Columbia is the Gaming Control Act and the Gaming Control Regulation. The legislation describes the roles and responsibilities of two key organizations in the British Columbia gaming industry: the Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General, and the British Columbia Lottery Corporation (BCLC).

Gaming Policy and Enforcement Branch

As the regulator of the British Columbia gaming industry, GPEB works to implement and enforce the legislation to help achieve government's gaming objectives. The branch has 117 staff who deal with all forms of gaming in the province, including casinos. GPEB's key responsibilities in relation to casino gaming include:

- ensuring the overall integrity of gaming;
- developing and managing gaming policy, legislation and standards;
- regulating all aspects of the gaming industry;
- registering gaming service providers and gaming workers, and certifying gaming equipment and lottery schemes;
- conducting audits of charitable and commercial gaming activities to ensure compliance; and
- investigating all alleged contraventions of BC's Gaming Control Act and investigating, in cooperation with law enforcement, all alleged contraventions of relevant sections of Canada's Criminal Code.

Background

British Columbia Lottery Corporation

BCLC was incorporated on October 25, 1984. As an agent of the Crown, the Province designated BCLC as the sole authority to conduct and manage casino gaming within British Columbia. In 1997, BCLC was given responsibility over slot machines when they were introduced in the province as part of government's change in gaming policy. A year later, BCLC was given responsibility to conduct and manage all casino gaming. BCLC's responsibilities under the Gaming Control Act, include:

- making sure commercial gaming facilities operate according to government policy and corporation standards, policies and procedures;
- setting operational rules of play in all gaming facilities;
- managing contracts with gaming service providers and ensuring compliance;
- transferring net proceeds from commercial gaming to the province;
- ensuring there are problem gambling programs in gaming facilities; and
- locating, relocating or making substantial changes to gaming facilities.

The corporation is responsible to the Minister of Public Safety and Solicitor General, through a Board of Directors appointed by the provincial government. Its headquarters are in Kamloops and it has a sales and marketing office in Richmond. In all, it employs about 560 staff. This includes employees who are based in the above two offices, as well as lottery, casino and bingo support staff in gaming operations throughout the province.

BCLC has partnered with eight private sector casino service companies to provide, under contract, both casino facilities and day-to-day operational services (including casino staffing) for a service fee based on revenue generated. According to BCLC, one of its core values is to ensure that the gaming they offer and the way they conduct business is fair, honest and trustworthy.

Our expectations

The provincial government has the challenging task of ensuring that gaming integrity is maintained in casinos—that is, that error, criminal exploitation and employee dishonesty in casinos is minimized. There are three potentially significant consequences for government if it fails to adequately ensure gaming integrity in casinos:

- unsavoury elements may become involved in the industry posing a threat to patrons and increasing the level of crime;
- a large number of patrons may stop visiting the casinos, leading to a significant reduction in government revenues; and
- government may not receive all the revenue to which it is entitled.

The key approaches used in other major jurisdictions to ensure gaming integrity include screening gaming industry applicants to ensure those providing services are honest; checking gaming equipment before installation to ensure that it operates fairly; and monitoring casino operations to ensure that gaming related activities are conducted honestly.

We therefore set out to learn whether the provincial government is adequately ensuring that:

- casino industry participants meet high standards of honesty,
- casino gaming equipment operates fairly,
- casino gaming related activities are conducted honestly, and
- government is receiving its correct share of casino gaming revenue.

Does government adequately ensure that casino industry participants meet high standards of honesty?

The Gaming Control Act and Regulation makes the Gaming Policy and Enforcement Branch (GPEB) the regulator of the casino industry in British Columbia. The legislation requires that corporations and individuals who intend to provide gaming services to casinos in British Columbia be registered by GPEB. The Gaming Control Act defines gaming services to mean any that are related to the activities of operating a casino. The legislation also gives GPEB the authority to refuse to issue or renew the registration of a gaming worker or gaming service provider if it determines that the applicant fails to meet high standards of honesty.

"Gaming workers" are those who are paid to assist in the conduct, management or operation of a casino (e.g., card dealers, floor security). "Gaming service providers" are corporations or people who provide gaming services, gaming workers, gaming supplies, or a facility for casino gaming. GPEB estimates that about 7,200 gaming workers and key employees are employed in casinos in British Columbia and about 1,000 are employed in organizations that supply ancillary services to casinos. Also, there are 115 companies—55 casino equipment suppliers and 60 ancillary service providers—involved in the province's gaming industry. And each year, GPEB processes new and renewal applications from about 5,000 casino gaming worker applicants, 50 casino service provider applicants and 130 key corporate personnel applicants.

Having the right people working in, and providing services to, the province's casino industry is central to maintaining gaming integrity because it helps to:

- minimize criminal influence and exploitation;
- protect patrons from fraudulent activities by operators and their employees; and
- safeguard an increasingly important source of government revenue.

To ensure that only the right people and organizations participate in the casino industry, we expected to find adequate registration processes in place, including:

- well-designed mechanisms to collect the information needed to assess applicants;
- adequate guidelines to help investigators make appropriate suitability assessments;

Does government adequately ensure that casino industry participants meet high standards of honesty?

Courtesy of Gaming Policy and Enforcement Branch

A typical group of slot machines in a B.C. casino

- adequate review of applicant information by independent, qualified investigators using reliable sources of information; and
- ongoing monitoring to ensure that those working in, and providing services to, casinos continue to meet high standards of honesty.

We concluded that the government has established all those processes and is therefore adequately ensuring that those who participate in the casino gaming industry meet high standards of honesty.

There is still some room for improvement. We think that GPEB should:

- require that key employees of GPEB and BCLC have their backgrounds rechecked using similar timeframe criteria as are currently used for gaming workers and service providers; and
- require that all BCLC employees who help to ensure gaming integrity in casinos be registered by GPEB.

Does government adequately ensure that casino industry participants meet high standards of honesty?

GPEB has implemented well-designed processes to collect the information needed to assess applicant suitability

We noted that GPEB has developed application forms specific to gaming workers and companies. We reviewed the application forms and found them to be clearly designed to collect the critical pieces of information needed to allow the branch's investigators to make reliable applicant suitability assessments.

Gaming workers

For gaming worker applicants, we found that GPEB requires information to establish the true identify of the individual, such as recent passport photos, a letter from the applicant's prospective employer offering employment, personal identification including photo identification (e.g. driver's licence); and a copy of the applicant's landed immigration papers for applicants who are not Canadian citizens.

Corporate applicants

GPEB requires that corporations intending to provide goods or services to casinos be registered. This includes corporations planning to provide casino services, gaming supplies or equipment, security or surveillance services, gaming premises, and regular building maintenance, janitorial services or concession services at a gaming facility.

Key information required by GPEB from corporate applicants includes:

- information to establish the legal identity of the organization, such as other names by which it is or has been known, its corporate tax account number, articles of incorporation or partnership agreement, and financial institutions dealt with during the past year;
- business history and a list of other provinces or jurisdictions where it operates;
- a list of all businesses in which the applicant has a financial, organizational or managerial interest;
- financial statements, press releases and filings to the securities and/or exchange commission in the company's jurisdiction for the previous 12 months;

Does government adequately ensure that casino industry participants meet high standards of honesty?

- a list of all persons with a legal or equitable interest, directors, officers, shareholders, family members working in the business, and key employees, including their full names, home addresses and dates of birth;
- a description of the share structure and the percentage of share holdings of each of the directors, officers or voting shareholders holding 5% or more of shares;
- criminal investigations, indictments and records of conviction, civil actions, judgments or decrees;
- consent to release of corporate information; and
- sworn statement and deposition.

Extensive personal background information must also be provided by the following key individuals of the corporation: directors and officers of a gaming service provider, gaming equipment supplier or manufacturer; every shareholder or investor who owns or controls shares or has a 5% or greater financial interest in the applicant company; and influential employees of the applicant corporation such as casino managers, security or surveillance managers, and personnel managers.

GPEB also has the authority to require background information from outside directors of an applicant company or from organizations and individuals providing services to the applicant company.

GPEB provides adequate guidance to investigators for assessing applications

During the course of a typical year, registration investigators assess new and renewal applications for almost 5,000 gaming workers, about 50 corporate applicants, and about 130 corporate personnel applicants. We found that the branch has provided clear guidance to its investigators to assist them in assessing gaming workers corporate applications for registration.

According to GPEB's criteria, it may reject a gaming worker applicant if:

- he or she has been convicted or is subject to pending criminal charges in any country, province, state or territory;

- a successful civil claim has been brought, or there is a civil claim pending, against the applicant and such claim is based in whole or in part on fraud, theft, misrepresentation or similar conduct; and
- his or her behavior is considered to be a detriment to the integrity or lawful conduct or management of gaming.

Also, if a gaming worker applicant fails to disclose important information or his or her answers are not correct, the application will likely be denied. And even after gaming workers are registered, their employment can be cancelled or suspended by GPEB if it is found that they failed to comply with the terms of their registration or provided incomplete or incorrect answers on their original application.

Overall, in 2003/04, GPEB denied 31 applicants, cancelled 17 registrations and suspended three, and issued seven warnings.

GPEB's registration policies and procedures for corporate applicants and key corporate personnel applicants also provide clear direction to investigators on when an application may be rejected. Applicants may be found ineligible for registration under the same criteria as those for rejecting a gaming worker.

As well, GPEB investigators determine whether any past conviction makes an applicant ineligible for registration. They assess:

- the behaviour for which the charges were laid (if repeated, would it pose a threat to the integrity of the gaming industry?);
- the circumstances of the charge, particulars of the offence involved, and sentence imposed;
- the length of time that has elapsed between the charge and the application;
- other activities the applicant has been engaged in since the date of the charge;
- any indication of tendencies by the applicant to repeat the kind of behaviour from which the charges arose; and
- whether the applicant has failed to show a firm intention to rehabilitate.

Does government adequately ensure that casino industry participants meet high standards of honesty?

As with a gaming worker application, if a corporate or key corporate personnel applicant misrepresents facts or fails to reveal information requested, their application may be denied. And, later discovery of an omission or misrepresentation made in the application may be grounds for withdrawing the registration. Each year, GPEB needs to investigate a few cases where the integrity of a corporate registrant comes into question. At the time of our audit, the branch was investigating one gaming service supplier and considering cancellation of their registration.

Applications are adequately assessed by independent, qualified investigators using appropriate sources of information

GPEB employs 10 registration investigators and a director who oversees the registration division.

Independence

A critical requirement for GPEB registration investigators is that they have the ability to make impartial assessments of gaming worker and service provider applications. We found that under the Gaming Control Act, GPEB is independent of both casino gaming service providers and BCLC. Members of the Registration Branch also told us that they have been allowed to perform their work without interference.

Investigator qualifications

We found that GPEB registration investigators have adequate training and experience to carry out in-depth assessments of gaming worker and service provider applications. The 10 investigators and director have extensive training and experience in areas such as policing (RCMP), provincial gaming and auditing. A recent resignation has left the branch without an investigator with a professional accounting designation, and staff from the Comptroller General's Office are temporarily filling that gap.

We reviewed a sample of gaming worker and corporate applications and found that all had been background-checked by GPEB registration staff using appropriate sources of information to make their assessments.

Ensuring the right people work in British Columbia's casinos

Denying a gaming worker application

A gaming worker applicant answered "no" to the following application questions:

Have you in the last 10 years, in any jurisdiction, been:

- arrested?
- stopped or detained (such as for shoplifting or impaired driving)?
- charged with any criminal offence, whether found guilty or not?
- provided alternate justice (e.g., performing community service) for offences such as theft, shoplifting?
- convicted of any criminal offence, regardless of the sentence?
- investigated or had a claim made against you by anyone (based in whole or in part on fraud, deceit, misrepresentation, breach of trust or similar conduct)?

Background investigation by GPEB determined that the individual had never been charged and taken to court, but had, in the previous three years, been arrested and held in police cells approximately 15 times for alcohol, drug and violence-related incidents. And the most recent incident had occurred just days before the individual applied for gaming worker registration. When called to appear for an interview with GPEB investigators, the individual became aware that GPEB knew of his failure to disclose key information in his application and did not appear. As a result, GPEB denied him registration based on his failure to disclose key information and failure to cooperate in the background investigation.

Canceling a gaming worker registration

As a result of a home invasion on premises housing a marijuana grow operation, an individual at the home received life threatening injuries. He was taken to hospital by a casino gaming worker who was in a relationship with him. After some time, the police learned that the house was in the name of the casino worker and leased to unknown parties through the injured individual, and also that the gaming worker had been in the house on a weekly basis over a considerable period of time. The injured person was also known to police as an identified criminal with a drug past. Before long, the worker was also found to have, in past, participated in moving large sums of cash for profit. None of this information was disclosed on the gaming worker's original application and, as a result, their registration was cancelled by GPEB.

Warning a gaming worker for not complying with the terms of registration

A patron of a casino was observed conducting loan sharking activities in the facility and, as a result, a British Columbia Lottery Corporation investigator served the person with a provincial suspension notice. A senior member of the casino, who should have reported this activity immediately to GPEB under Section 86 of the Gaming Control Act, failed to do so until 23 days after the initial incident and not until the person was provincially barred from entering casinos. As a result, GPEB issued a written warning to the casino employee for failure to abide by the provisions of the Act.

Source: Gaming Policy and Enforcement Branch

Does government adequately ensure that casino industry participants meet high standards of honesty?

In the case of gaming workers, background checks included information sources such as credit history, criminal records and local infractions. The Canadian Police Information Centre database records were queried for the disposition of all charges for which a person had been fingerprinted (indicating they have a criminal record) and all outstanding charges currently before the courts. Local infraction checking was also conducted through the RCMP Personal Information Retrieval System database and any other city, municipal, provincial, federal, state, county, sheriffs, FBI or other police databases in Canada or the USA that GPEB deemed appropriate.

For corporate applications, we found that GPEB investigators had reviewed the application information and evaluated the financial, business and criminal history of the corporation. Sources of information used included:

- international, national, provincial, state, county or municipal law enforcement or security agencies;
- police services and sheriff's offices;
- government ministries or regulatory agencies;
- banks, trust companies, brokerage houses, credit bureaus;
- professional or industry associations, licensing bodies or regulators; and
- former or current customers.

The databases used by GPEB record all complaints the respective police departments investigate and also include information related to non-convictions.

In our opinion, this feature of GPEB checking helps to keep the entrance standard into the provincial casino gaming industry at a high level. Gaming service providers and BC Lottery representatives we met reported satisfaction with the effectiveness of the GPEB registration process. Another indication of the effectiveness of GPEB's registration process is that it denies, cancels, suspends or warns many applicants and registrants each year (85 in 2004), yet it has experienced few appeals and reversals of its original decisions (five decisions were appealed in 2004 and only one reversed).

Does government adequately ensure that casino industry participants meet high standards of honesty?

There is adequate ongoing monitoring to ensure participants in the casino industry continue to meet high standards of honesty

Preventing undesirable participants getting into provincial casino gaming is key to ensuring integrity of the industry, but watching that a registrant stays honest over time is also critical. We found that GPEB uses several processes to monitor that only honest registrants continue to participate in the casino industry. A key requirement is that gaming workers and service providers periodically reapply to be licensed. Gaming worker registrations are valid for three years or until the worker ceases employment in the industry. Corporate registrations are valid for a period of five years. Once the registration period ends the gaming worker or service provider must reapply and be reassessed by GPEB.

We found that GPEB maintains current registers of both gaming workers and service providers to monitor that registrations remain valid, and carries out renewals in compliance with legal requirements.

Gaming workers

Under the terms and conditions of registration, gaming workers must regularly report to GPEB any circumstances that bring into question their suitability to continue being involved in the casino industry. For example, gaming workers must report when they are under criminal investigation or are charged in a criminal, regulatory or statutory matter, or when a civil suit involving allegations of fraud, theft, deceit, misrepresentation or similar conduct is brought against them. Failure to report either situation could result in GPEB's Director of Registration canceling their registration. We found that during 2004, GPEB suspended four gaming workers and issued seven warnings over non-compliance with registration terms and conditions.

Overall, we believe that GPEB's self-reporting requirements for gaming workers and the associated penalties for not reporting help ensure that if the suitability of a gaming worker changes, GPEB is likely to be made aware of it.

Does government adequately ensure that casino industry participants meet high standards of honesty?

Corporate gaming service providers

Similar to those requirements noted above for gaming workers, GPEB requires gaming service providers to keep the branch informed about any changes in their operations (see sidebar).

As with gaming workers, failure to comply with the terms and conditions of registration could result in GPEB's Director of Registration canceling a corporate service registration. Loss of their registration in British Columbia could have significant repercussions on their operations. Many also operate in other gaming jurisdictions that may, depending on the circumstances, choose to investigate and cancel the company's registration as well.

GPEB registration investigators monitor corporate compliance with the above requirements. During 2004, this involved monitoring 115 service providers and senior officials associated with those organizations. We reviewed a number of corporate files and found that the investigators were regularly reviewing a variety of information sources (e.g., websites and news media) for items of interest, including indicators of non-compliance with the licence terms. We found that significant items are followed up (e.g., contacts made with the organization or regulators in other jurisdictions as required to confirm facts) in order to assess whether the organization continues to be compliant

Ongoing reporting by gaming service providers

The terms and conditions of corporate registrants require that they immediately notify GPEB of the following:

- any change in ownership structure;
- any conduct or activity at or near a gaming facility in British Columbia that is or may be contrary to the Criminal Code, the Gaming Control Act or the regulations under the Act;
- any suspected or alleged criminal activity that involves the service provider or a registered gaming employee;
- release of annual financial statements; and
- filings with securities or exchange commissions in their jurisdiction.

Individuals registered by GPEB to provide gaming goods or services must immediately notify GPEB if:

- there is any change in their involvement in the gaming industry; and
- they are under criminal investigation or are charged in a criminal, regulatory or statutory matter or are the subject of a civil claim based on fraud, theft, misrepresentation or similar conduct.

Source: Gaming Policy and Enforcement Branch

with their registration requirements in British Columbia. One of our samples involved a corporate registrant that failed to disclose essential information at the time of registration. Another sample implicated a corporate registrant for improperly dealing with loan sharking activities. Both examples were relatively recent and, at the time of our review, GPEB was in the process of deciding the disciplinary actions that would be taken. Overall, we believe that GPEB adequately monitors to ensure that only trustworthy corporate registrants continue to be involved in the British Columbia gaming industry.

GPEB and BCLC employees

The Gaming Control Act requires that key employees of GPEB and BCLC undergo background checks to ascertain their suitability for employment. We reviewed a sample of GPEB and BCLC files and found that background checks had been carried out in all instances. We also noted that, unlike gaming workers and key corporate personnel who are rechecked after three years and five years, respectively, GPEB and BCLC key employees are not rechecked.

We recommend that key employees of GPEB and BCLC have their backgrounds rechecked every three to five years as is currently the case for gaming workers and service providers.

We also noted that GPEB's policy is to perform background checks on BCLC employees, only if they are expected to need regular access to casinos. As a result, some BCLC employees who help to ensure gaming integrity in casinos but do not spend much time there (this includes, for example, quality assurance staff involved in the certification of gaming equipment) are not registered by GPEB. We also noted that a background check of one senior official of BCLC had not taken place as required by the Gaming Control Act.

We recommend that all of BCLC's senior employees and any other BCLC employees who help to ensure gaming integrity in casinos be registered by GPEB.

Does government adequately ensure that casino gaming equipment operates fairly?

The Gaming Control Act requires that only gaming equipment approved by GPEB be used in casinos. The Act also requires that GPEB issue its approval only if satisfied that the gaming equipment will be fair according to standards approved by GPEB. Key steps in helping GPEB meet its gaming equipment responsibilities include ensuring that:

- gaming equipment is purchased from only approved suppliers;
- approved technical standards for assessing the fairness of gaming equipment have been implemented; and
- gaming equipment is adequately tested against the standards before use in casinos (note that ongoing monitoring of the operation of gaming equipment in casinos is covered in the next section of this report).

We concluded that the government is adequately ensuring that gaming equipment operates fairly. Equipment is purchased from only approved suppliers and is only used in casinos after it has been independently tested against approved standards. Nevertheless, we think that GPEB can improve the process by obtaining additional assurance to support its reliance on independent test facilities and the BCLC Casino Quality Assurance Department when certifying new equipment.

GPEB ensures that gaming equipment is purchased from only approved suppliers

The Gaming Control Act requires that a supplier of gaming equipment be registered by GPEB. When BCLC requests approval of a particular piece of gaming equipment, GPEB ensures that the supplier is listed on its register and in good standing. We found the process for registering gaming equipment suppliers (discussed in the previous section of this report) was found to be working effectively.

With GPEB having control of both the equipment supplier registration process and the gaming equipment certification process —and given the relatively small number of equipment suppliers— the branch is in a strong position to ensure that gaming equipment is purchased from only approved suppliers. We reviewed a sample of gaming equipment approved for use in British Columbia casinos and found that all had been supplied by companies registered and in good standing with GPEB.

Does government adequately ensure that casino gaming equipment operates fairly?

Courtesy of Gaming Policy and Enforcement Branch

B.C. Gold: a connected group of slot machines offering a randomly won price

Adequate technical standards governing the functioning of gaming equipment have been implemented

Technical standards for gaming equipment operations are an important part of ensuring gaming integrity, because they provide a benchmark against which gaming equipment can be evaluated.

We found that the technical standards that exist were developed by an independent game testing facility using standards adopted by numerous major gaming jurisdictions around the world. We think that using the technical standards developed by the independent test facility is a reasonable choice for several reasons:

- The organization is a recognized leader in the testing of gaming equipment and provides game testing services for many other gaming jurisdictions both in Canada and elsewhere.
- The standards specifically address game fairness.
- The test facility has a policy to update its standards as often as possible to reflect changes in technology, testing methods and cheating methods. With technology changing frequently, it is a major challenge for individual jurisdictions to incorporate new technology quickly enough into existing standards.

Mitigating gaming equipment risks

Technical integrity standards address the following key risks:

Hardware

- Machine enables illegal access to cash or critical operating components.
- Game results are affected by outside influences (e.g., electro interference, temperature, humidity, power surges or dips, power supply access).
- Machine loses critical memory needed to identify and correct malfunctions.
- Machine fails to generate error conditions when operating improperly or when there is an attempt to interfere with the machine's proper operation.
- Video monitors/touch screens operate inaccurately.
- Machine fails to process patron credits accurately.
- Machine with bill acceptor:
  - lacks security needed to prevent illegal access to cash;
  - fails to identify and prevent the use of counterfeit currency and other currency cheating methods;
  - operates inaccurately or is affected by outside influences (e.g., electro interference, temperature, humidity, power surges or dips, power supply access);
  - fails to maintain sufficient electronic metering information; and
  - is incapable of detecting and displaying error conditions.

Software

- Critical player information, such as rules of the game and the awards that will be paid, are not clearly and accurately displayed.
- All combinations and outcomes that produce wins and losses are not available to the player for random selection.
- Random selection process is influenced by associated equipment communicating with the gaming device.
- Random number generator that determines game outcomes fails to operate randomly.
- Prescribed payout percentages are not met.
- Extra credits wagered during bonus games are processed inaccurately.
- Player-related electronic metering within the machine operates inaccurately.
- Game-play data prior to interruption (e.g., power failure) is not properly recovered.
- Alarms to detect access to machine doors (e.g., external doors, drop box door, bill acceptor door) do not function properly.
- Data for the last five games played is not retrievable.
- Independent integrity check of the device's software from an outside source to identify and validate the program does not function properly.

Source: Prepared by the Office of the Auditor General of British Columbia based on Standards for Gaming Devices in Casinos developed by Gaming Laboratories International

Does government adequately ensure that casino gaming equipment operates fairly?

That said, we think that, given the size and growth of the gaming industry in the province over recent years, GPEB and BCLC should formulate standards specific to British Columbia to ensure that all their requirements are met. GPEB informed us that it is taking this step already, along with BCLC and an independent game testing facility.

We recommend that GPEB ensure that technical standards specific to British Columbia are developed and approved to govern the functioning of gaming equipment in provincial casinos.

Gaming equipment is adequately tested against approved technical standards before use in casinos

The Gaming Control Act requires that GPEB approve all casino equipment before it is used on the gaming floor in any of British Columbia's casinos. We found that GPEB's ability to meet its responsibility is made easier by the fact that all gaming equipment is owned and maintained by BCLC. This means that GPEB deals with only one organization—BCLC—rather than each casino service provider, and this makes it possible to have only one clearly defined gaming equipment approval process.

If BCLC wishes to employ a new piece of gaming equipment (e.g., a new slot machine model), it asks the independent test facility to provide test results for that piece of gaming equipment against the technical integrity standards currently accepted by British Columbia. At the same time that the independent test facility conducts its tests, BCLC's Casino Quality Assurance Department conducts tests on the same equipment to ensure that it communicates properly with BCLC's central monitoring and control systems. If the independent tests and BCLC's tests are positive, then the results are sent to GPEB. Staff at the branch review the results of both BCLC and the independent test facility and, if satisfied, issue a Certificate of Technical Integrity, clearing the way for the equipment's use in the province's casinos.

We reviewed a sample of equipment certification requests and found that the process was working well. All requests included test results from both BCLC and the independent test facility. We also found that staff of GPEB and BCLC were well acquainted with the process and reported no concerns.

Nevertheless, we think that there's room for strengthening the process. In making its decision to certify or not, GPEB relies on the work done by the independent test facility and on BCLC's Casino Quality Assurance Department. GPEB told us that it places reliance on the test reports of the independent test facility for several reasons:

- The facility has been registered as an approved supplier of gaming services by GPEB Corporate Registration Division;
- The facility has a good reputation in the industry and is registered with many jurisdictions; and
- GPEB has no reason to believe that the facility's work is unreliable —the branch regularly communicates with other jurisdictions (some that do their own testing and some that rely on this facility) and has not been made aware of any significant issues.

In our view, the above reasons provide plausible but insufficient evidence to support GPEB's relying on the independent test facility, especially in view of the importance of the work to gaming integrity. GPEB's investigations are aimed primarily at ensuring that the organization under review and its key personnel meet high standards of honesty, but do not include a review of the standards to which the testing companies perform their tests nor an assessment of the qualifications and competence of its staff. Also, relying on the experience of other jurisdictions provides only limited assurance because they do not necessarily use the same equipment as British Columbia.

We acknowledge that British Columbia has had no reported instances calling into question the work of the independent test facility, but we believe that GPEB should have better evidence to support its reliance. Possible options for gathering that evidence include:

- determining if the test facility has been certified by a reputable agency under international standards (e.g., ISO) and reviewing the certification report;
- contacting other jurisdictions to determine if they have directly assessed the test facility, and if so, performing sufficient due diligence to warrant relying on the work of that jurisdiction; and

- engaging an external consultant to undertake a separate review of the procedures used by the testing facilities and of the professional qualifications and competence of its staff.

We recommend that GPEB obtain additional evidence to support its reliance on independent test facilities to evaluate BCLC gaming equipment.

As we noted above, GPEB relies on BCLC's Casino Quality Assurance Department tests of gaming equipment in the certification process. We found that although GPEB places reliance in BCLC's tests, it has not formally reviewed the standards to which BCLC carries out its tests nor has it assessed the qualifications and competence of the staff doing the work.

We found that the primary purpose of the Casino Quality Assurance Department work is checking that the gaming equipment communicates properly with the corporation's accounting and control systems. We regard the work as an important step in ensuring gaming integrity in casinos. The Quality Assurance Department group has developed its own set of standard tests that reflect the unique communication requirements of its casino and accounting systems; and it keeps records of its detailed testing procedures for future reference to ensure that it is being consistent in the checks it performs. We believe that the department's tests adequately cover key aspects of gaming integrity, ensuring, for example, that:

- slot machines can only be enabled by BCLC headquarters after being disabled to perform maintenance;
- slot machines properly cash out patron credits when shut down;
- slot machines allow BCLC headquarters to perform daily electronic checking that is designed to ensure that the game contains the correct computer game chip;
- all jackpots and fills (the restocking of a machine with money) are properly recorded on the slot machine's internal meters, that the information reports properly through BCLC's casino and accounting systems, and that the cashier is properly notified;

- slot machines correctly report different currency bills and coins played and won to BCLC's casino and accounting systems;
- slot machine alarms built into each machine (e.g., door open, power on/off, chip removed) properly operate and communicate through BCLC's casino and accounting systems so that action can be taken;
- slot machines properly capture and report through BCLC's casino and accounting systems the internal meter readings before being reset to zero (e.g., when a machine is being serviced);
- slot machines correctly report meter readings each day through BCLC's casino and accounting systems; and
- slot machines, that are linked with other machines to increase the potential jackpot, correctly calculate the jackpot amount and report the information through BCLC's casino and accounting systems.

The Quality Assurance Department group informed us that, in a few instances, they have contacted a game manufacturer to resolve communication difficulties between the games and BCLC's casino and accounting systems, but normally the games perform properly when first checked. We believe that the group has the independence needed to perform their work and ensure that the games function properly before being made operational.

We recommend that GPEB periodically review the work of the BCLC Casino Quality Assurance group to support the branch's reliance on gaming equipment tests carried out by the group.

Does government adequately ensure that casino gaming activities are conducted honestly?

The Gaming Control Act makes BCLC responsible for conducting and managing casino gaming in the province. In meeting its mandate under the Gaming Control Act, BCLC contracts with independent commercial third parties for the provision of day-to-day operational services under BCLC's direction using gaming equipment and systems owned by BCLC. BCLC's reliance on third parties for this service increases the risk that a service provider might be tempted to conduct gaming activities dishonestly (i.e., unfairly or unlawfully) to increase its share of gaming revenue.

To manage this risk, we therefore expected the government to have implemented:

- adequate policies and procedures to help ensure that casino gaming activities are conducted honestly; and
- adequate mechanisms to ensure that those policies and procedures are consistently followed.

We concluded that government is adequately ensuring that gaming activities are conducted honestly. Sound policies and procedures governing key casino operations are in place to ensure the honest conduct of gaming activities. And strong mechanisms exist to ensure that the policies and procedures are consistently followed including BCLC supervisory staff stationed in casinos, BCLC ongoing casino audits, surveillance operations, GPEB annual audits of each casino and GPEB investigation of incidents posing a threat to gaming integrity.

To improve, we think that BCLC should ensure that:

- surveillance personnel meet minimum standards of proficiency, as demonstrated through a certification program;
- casinos have approved surveillance system component plans in place;
- its website information pertaining to slot machines and the odds of winning is updated; and
- its Board of Directors is informed regularly of the results of its Operational Gaming Audit Program focusing on casinos.

Does government adequately ensure that casino gaming activities are conducted honestly?

We also think that GPEB should:

- formally evaluate key BCLC systems that the branch's Audit and Compliance group relies upon when doing its annual casino audits;
- work to produce more timely audit reports; and
- report annually to the Legislative Assembly on the state of gaming integrity in provincial casinos.

Also, government should confirm that the highest priority of the General Manager of GPEB is ensuring the integrity of gaming in the province.

Approved policies and procedures have been implemented governing key casino operations to help ensure honest gaming activities

The provincial government's policies and procedures governing the conduct of gaming in casinos include BCLC casino standards, policies and procedures; the Gaming Control Act and Regulation; and GPEB standards, policies and directives.

Together these policies and procedures guide day-to-day casino gaming operations and aim to assure the general public and the provincial government that casino gaming is being conducted in an honest manner. We found them to adequately address those facets of casino operations critical to ensuring honest gaming activities. Key aspects covered by the policies and procedures are summarized below.

Restricted access

Specific areas of the casino must be set aside to provide security over casino assets such as the card room, cash cage, chip room, count room and a vault. Other sensitive areas include the surveillance room and gaming pits. Policies and procedures require that only on-duty authorized gaming workers be permitted access to restricted casino areas. BCLC representatives generally have unlimited access to these areas when accompanied by a registered gaming employee. Policies and procedures also address key issues such as chip inventory, vault reconciliation, disbursements, bank deposits, daily reporting, and data entry into BCLC accounting and control systems. All of these requirements help to prevent unauthorized access to key areas that could lead to assets being tampered with or stolen.

Does government adequately ensure that casino gaming activities are conducted honestly?

Slot machines

Extensive policies and procedures cover slot machines. The BCLC Casino Site Operations Manager or Gaming Systems Coordinator in each casino is responsible for performing repairs and preventative maintenance on slot machines. Other critical activities covered include opening and closing machines, filling slots with cash, removing cash, processing jackpots, servicing jammed machines and correcting malfunctions. The aim is to prevent unauthorized access to, and alteration of, gaming equipment that could lead to dishonest gaming activities and the loss of cash.

Table games

As for slot machines, extensive policies and procedures cover table games, including opening and closing procedures, chip counts and fills, player buy-ins, cash removal, play procedures and data entry into BCLC accounting and control systems. Policies and procedures also cover minimum dimensions of gaming tables and pit areas. All of this helps to ensure honest table game activities and the safe and secure handling of casino assets.

Casino staffing requirements

The BCLC Director of Casino Operations has discretion in determining whether a casino is sufficiently staffed for all positions. This helps to ensure that there is adequate staffing to properly monitor gaming activities for fairness. Also, policies and procedures restrict the number of family members working in the same casino and prohibit gaming workers playing at any gaming facility owned or operated by their employer. This helps to prevent gaming workers from colluding with fellow workers to conduct dishonest gaming activities or steal assets.

Gaming worker identification

All gaming workers must be registered by GPEB and must wear their GPEB identification tag when on duty. Policies and procedures also clearly address lost or stolen GPEB tags. Service providers must give the BCLC Manager and the Casino Security and Surveillance group access to a list of all current employees' GPEB tag numbers and expiry dates. This helps to ensure that only gaming workers who have been properly checked and registered by GPEB Registrations group are providing gaming services.

Does government adequately ensure that casino gaming activities are conducted honestly?

Gaming equipment

Policies and procedures require that BCLC can be the only owner and supplier of casino gaming equipment used in the province's gaming facilities. As we noted in the previous section of this report, gaming equipment purchasing and testing are closely regulated. This helps to ensure that all gaming equipment is supplied by approved equipment suppliers and has been independently tested and certified by GPEB.

Surveillance requirements

The surveillance function is often characterized as the casino's "last line of defense" against errors and irregularities. When other controls have failed to prevent or detect a misdeed, surveillance monitoring and tapes can often provide the evidence needed to isolate the problem or fix responsibility with a particular individual. As a result, BCLC has placed significant emphasis on the surveillance function.

The BCLC Manager of the Casino Security and Surveillance group:

- determines the surveillance standards, policies and procedures to be followed by all service providers and surveillance personnel;
- has authority to determine whether a casino is sufficiently staffed with surveillance and security personnel; and
- may require a service provider to include additional areas to be monitored by the surveillance system, to ensure gaming integrity.

The Surveillance Manager must not report directly to any other on-site manager, including the Casino Manager and must act independently, without interference from any other areas. The service provider must submit to the BCLC Manager, Casino Security and Surveillance for approval, a written Surveillance System Component Plan (e.g., equipment type and location, maintenance and replacement plan) and a Surveillance Personnel List. BCLC will only approve the plan after it has conducted a visual audit under conditions of a simulated gaming day.

The surveillance cameras must monitor, on an ongoing basis, all key parts of the casino, including:

- count room
- cash cage
- card and chip banks
- table games
- slot machines
- high limit rooms
- entrances and exits
- surveillance room
- key cabinets

The above requirements help to ensure that each casino has an effective surveillance function that is a strong deterrent to dishonest activities, yet—when such activities do occur—is also capable of detecting breaches in all aspects of casino operations.

Money laundering

All casinos in British Columbia are required, under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and Regulations, to report to BCLC's Security and Surveillance group any information they obtain about a patron who engages in suspicious transactions. A significant transaction might be one in which a customer:

- exchanges foreign currency equivalent to $3,000 or more in a single operating day;
- buys in for $10,000 or more in a single operating day;
- cashes out for $10,000 or more in a single operating day;
- wins a jackpot of $10,000 or more in a single operating day; and
- buys in with a large amount of small denomination bills or buys in for $3,000 or more and, after minimal play, cashes out.

Casino gaming service providers are required to collect personal information, including photo identification, from the patron involved in a large cash transaction. All such transactions must be submitted to the federal government, which maintains a database of the transactions for potential use in subsequent investigations.

The above requirements help to ensure that money laundering activities do not take place in casinos.

Does government adequately ensure that casino gaming activities are conducted honestly?

Courtesy of Gaming Policy and Enforcement Branch

A variety of table games (e.g., blackjack, poker, roulette, craps) are played in B.C. casinos

Counterfeit currency

Service providers are responsible for detecting and reporting incidents of known or suspected counterfeiting. They must ensure that all casino employees who handle cash are trained in counterfeit bill detection, and ensure that all casino areas receiving cash assets from the public (including the cash cage and count room and slot machines) are equipped with counterfeit detection devices. All counterfeit cash must be secured in the vault room and verified daily until it is transferred to the police or BCLC Casino Security Investigator and signed for. Documentation of the incident must be forwarded to BCLC's on-site representative. The policies and procedures also require that the service provider video record the patron who presented the counterfeit bills and monitor and record all subsequent activities relating to the patron. Surveillance recordings must be kept for future investigation.

The above requirements help to ensure that counterfeit currency is not used in casinos where it can result in a loss of gaming revenue.

Does government adequately ensure that casino gaming activities are conducted honestly?

Occurrence and incident reporting

Service providers must submit occurrence reports to BCLC's on-site representative and BCLC's Manager of Casino Security detailing any event where gaming integrity was compromised. Such incidents include:

- breaches of policies and procedures;
- theft, cheating at play, or other criminal code violations; and
- variances of cash, chips or anything of monetary value of $50 or more.

The service provider also has a legal obligation to prepare and send a "Section 86 Gaming Control Act Report" to GPEB's Investigations Division immediately after any of the following real or suspected activities or incidents occur that could affect the integrity of gaming at a casino:

- thefts;
- all forms of fraud, including cheating at play and the passing of counterfeit currency;
- money laundering;
- loan sharking;
- robbery;
- assault;
- threats against, or intimidation of, gaming employees;
- unauthorized gaming activities;
- persons prohibited for known or suspected criminal activity;
- unregistered gaming workers;
- unregistered gaming service providers; and
- offences occurring outside a legal gaming venue if it involves a registered gaming service provider or registered gaming worker.

The above requirements help to ensure that unusual activities that might impact gaming integrity are reported, investigated and prosecuted, when appropriate.

Player fairness issues

Player fairness encompasses issues such as the composition of gaming services in a casino and communication of game rules and the odds of winning. To help ensure player fairness, the BCLC is actively involved in determining the mix, type, variety and

location of table games and slot machines offered for play in each casino. It also determines the allowable rules of play for table games and includes them, along with dispute resolution procedures, in the BCLC Policies and Procedures manual to direct service providers.

BCLC also requires, in accordance with GPEB's Advertising and Marketing Standards for the B.C. Gambling Industry, that service providers have brochures or signage posted, outlining the rules for all table games offered at the particular location. For slot machines, the rules of games are displayed in the artwork or in game information menus that can be accessed by players.

We found that BCLC also has, on its website, a slot machine game profile. The profile describes the odds to win any prize and states the top prize for each of the slot machines deployed in British Columbia casinos. That information, however, was last updated in February 2003. BCLC told us it is currently redesigning this communication feature. BCLC also noted that information on the odds of winning at various table games is not provided because that information is available in books and over the internet. Also, the odds of winning at table games varies depending upon player decisions during play.

We recommend that BCLC update the public information it provides on its website pertaining to the odds of winning at slot machines.

The more than 700 pages of policies and procedures compiled by BCLC (with input from service providers) are highly prescriptive. We think this approach is both appropriate to the casino gaming industry in British Columbia and consistent with that in other jurisdictions with a large casino industry. A key benefit of detailed policies and procedures is that they assist supervisors and surveillance staff members in readily detecting gaming worker activities that are outside the norm. Such instances need to be investigated immediately because they potentially indicate dishonest activities.

Given their importance in helping to keep gaming activities honest, BCLC policies and procedures need to be kept up-to-date. Gaming service providers we interviewed told us that they have, in the past, had some concerns that the policies and procedures were not always current or communicated to them in a timely

manner. However, those issues have since dissipated and service providers now feel that BCLC is doing an adequate job in this area.

Adequate mechanisms help to ensure that government's policies and procedures are consistently followed

As described above, having adequate policies and procedures to guide service providers and BCLC casino staff is important, but steps must be taken to ensure that they are consistently followed. The government has put several mechanisms in place to help ensure compliance with policies and procedures. Among those mechanisms are:

- BCLC staff stationed at casinos,
- BCLC's ongoing compliance audits,
- the casino surveillance function,
- GPEB's annual casino audits, and
- GPEB's investigations.

BCLC casino staff

BCLC has representatives—Casino Site Operations Managers (CSOMs) and Gaming Systems Coordinators—stationed at casinos during operating hours. They represent BCLC in the management and conduct of all casino gaming activities and are responsible for:

- working in conjunction with the service provider to ensure that the casino provides gaming entertainment to the public in a socially responsible manner;
- monitoring all activities of the service provider for compliance with BCLC's policies and procedures;
- performing specified audit procedures and providing daily documentation and data on slot performance and anomalies;
- reporting exceptions or issues to BCLC management;
- performing repairs and preventative maintenance on slot machines and associated gaming equipment within a given casino;
- providing training and support to the casino service provider on the proper methods and techniques of slot machine handling and operation; and
- maintaining and upholding BCLC's customer service standards.

Does government adequately ensure that casino gaming activities are conducted honestly?

We found that BCLC's on-site representatives clearly understood their roles and responsibilities and were able to readily demonstrate the key standardized checks they must perform and the corrective actions they must take each day to ensure that policies and procedures are followed. Overall, we concluded that they are an effective mechanism for helping to ensure that service providers comply with policies and procedures aimed at ensuring gaming activities are conducted honestly.

BCLC ongoing compliance audits

A significant responsibility of BCLC's Operational Gaming Audit group is to conduct periodic assessments of the state of compliance with BCLC's policies and procedures in casinos. We found that the group was doing an effective job in meeting its responsibilities. Factors we considered in making this assessment are discussed below:

Competent staff—Staff are a mix of qualified accountants, auditors and people with training and experience in the gaming industry.

Independent reporting relationship—The group is responsible to BCLC's, Director of Corporate Security and Surveillance who is independent of casino operations.

Adequate audit programs—BCLC audit programs cover all of the key BCLC policies and procedures discussed earlier in this report.

Adequate frequency of audits—Over the course of a year, BCLC auditors carry out a series of quarterly, semi-annual, annual and random audits in every casino. During 2004, 925 audits were conducted in casinos, focusing on the key BCLC policy and procedure requirements discussed earlier in this report.

Adequate reporting of audit results—A copy of each audit report is provided to:

- BCLC's Director, Corporate Security and Surveillance
- BCLC's Casino Site Operations Manager at the audited location
- Casino Manager at the audited location
- corporate headquarters of the service provider.

Does government adequately ensure that casino gaming activities are conducted honestly?

Courtesy of Gaming Policy and Enforcement Branch

A typical roulette table game in a B.C. casino

Adequate monitoring of audit findings—BCLC reviews the audit results with the service provider and corrective actions are formulated. BCLC's Audit group monitors to ensure that the corrective actions are taken.

Overall audit results—Each audit generally finds areas of non-compliance by the service provider, but the trend has been towards increasingly better results. Notwithstanding the specific instances of non-compliance, we believe that, overall, the service providers are compliant with prescribed policies and procedures.

One area we think should be improved, however, is communication of the overall results of the casino audit program to BCLC's Board of Directors. As noted above, we believe that the Operational Gaming Audit programs carried out in casinos are focusing on the key operational activities that are critical to ensuring honest gaming activities. That information, we think, should be regularly presented to BCLC's Board of Directors. In our opinion, the board would benefit not only from being formally apprised of the overall results of the audits on a regular basis, but also from receiving an assessment of each casino's state of compliance with prescribed policies and procedures.

Does government adequately ensure that casino gaming activities are conducted honestly?

We recommend that BCLC report regularly to its Board of Directors on the results of the Operational Gaming Audit program and each casino's state of compliance with prescribed policies and procedures.

Casino surveillance

An effective casino surveillance department helps to ensure honest gaming by detecting, documenting and reporting:

- violations of policies, procedures and regulatory requirements;
- deviations from systems of internal control; and
- cheating at play and other criminal or illegal activity.

In British Columbia, because casino surveillance departments are staffed by service provider employees, this increases the risk that performance may not meet government's expectations. For example, a service provider may place less importance on the function than government desires, interfere with the department's operations, or suppress the reporting of breaches of policies and procedures to BCLC and GPEB.

BCLC recognizes these risks and is, we believe, adequately managing them through a number of actions:

- It has set the minimum standards for key aspects of the surveillance function.
- It has set the policies and procedures for the surveillance function.
- It conducts regular audits of the surveillance function.

We found that the minimum standards, policies and procedures established by BCLC for the surveillance function adequately address those aspects that are critical to ensuring honest gaming activities, for example:

- Surveillance systems must meet strict requirements and equipment capabilities.
- Camera coverage exists throughout a casino.
- Casino alarms (e.g., for slot machine access and jackpots) must be monitored.
- Surveillance equipment is regularly tested and maintained.
- Surveillance logs, forms and reports must be maintained.

- Suspicious incidents taking place in the casino must be reported.
- Access to the surveillance area is restricted.
- Surveillance personnel are independent of other casino staff.
- Surveillance staff must be trained and certified.

We noted, however, that while policies and procedures require that surveillance staff be certified under the BCLC Surveillance Certification Program, the program has not yet been fully implemented. BCLC has been working with the Justice Institute to develop the program, but work is still underway to determine how it can best be delivered.

We recommend that BCLC implement the Surveillance Certification Program at the earliest possible date.

We also noted that seven casinos did not yet have current Surveillance System Component Plans (described earlier in this report) approved by BCLC, as required by the policies and procedures. BCLC is working with those casinos to ensure that approved plans are in place as soon as possible.

We recommend that BCLC ensure that all casinos have approved Surveillance System Component Plans in place.

GPEB's annual casino audits

GPEB is mandated to ensure the overall integrity of gaming in British Columbia. To help meet its responsibilities, the branch relies upon BCLC's casino audits and, to ensure that reliance is warranted, conducts its own audit of each casino once per year. GPEB takes the position that, if its audit results are positive, then it is reasonable to conclude that BCLC has been effective in conducting and managing casino gaming with integrity.

We considered a number of criteria to assess the quality and reliability of GPEB's audit work. Those criteria and our observations are summarized below.

Competent staff—GPEB's Audit and Compliance group has competent staff that includes professional auditors and individuals with several years of experience doing casino compliance audits.

Independent reporting relationship—The group is responsible to the General Manager of GPEB who is independent of both BCLC and casino operations.

Does government adequately ensure that casino gaming activities are conducted honestly?

Adequate audit programs—GPEB audit programs cover the key policy and procedure requirements designed to ensure gaming integrity (as discussed previously). Each GPEB audit involves:

- a review of service provider records of equipment, suppliers and gaming workers for comparison against GPEB registration records;
- a review of incident and occurrence reporting for the prior year; and
- a review of operations for a full gaming cycle (i.e., a one-year period), including:
  - vault (cash cage, count room, and cash and chip safekeeping);
  - table games (opening, closing and table administration);
  - slot operations (procedures and gaming asset controls);
  - surveillance (administration, procedures and equipment); and
  - security (procedures, premises and gaming asset controls).

Adequate frequency of audits—GPEB conducts a full audit of each casino once a year. We think this frequency is reasonable. At the time of our work, GPEB had carried out its annual audits of all casinos.

Adequate reporting of audit results—Audit results are reported to BCLC's Director of Corporate Security for review and follow-up with the service provider.

Adequate monitoring of audit findings—A standard audit procedure is to review the status of exceptions identified in the previous year's GPEB audit. We found it evident that BCLC and service providers worked diligently to deal with the deficiencies reported by GPEB.

We also found that GPEB's audit reports normally include several findings of non-compliance with policies and procedures, but none of these have been considered material deviations. Overall, GPEB concludes that casinos are compliant.

At the time of our work, seven audit reports had been finalized and 12 were drafted and being reviewed by BCLC. Draft reports (usually about five pages long) are generally dated about three months after completion of the audit fieldwork. As a result,

we think there is scope to improve the timely issuance of GPEB's audit reports to ensure that gaming integrity deficiencies are dealt with promptly.

We recommend that GPEB produce more timely audit reports.

In the course of doing its audit work, GPEB's Audit and Compliance group relies on BCLC systems used in casinos such as the Casino Management and Casinolink systems, but it does not directly assess whether such reliance is warranted. We think that obtaining such evidence directly would strengthen GPEB's audit process.

We recommend that GPEB's Audit and Compliance group obtain direct evidence to support its reliance on BCLC systems.

Overall, we think that the work of the GPEB Audit and Compliance group is both an efficient and reasonable approach to help the branch meet its mandate. GPEB audits provide independent evidence that the policies and procedures that are designed to ensure gaming integrity are actually in effect and working.

GPEB investigations

Given the size of the casino industry in British Columbia it is reasonable to expect that some activities will pose a threat to gaming integrity. As a result, the government needs to ensure that when such activities occur, there is an effective mechanism in place to investigate and take appropriate actions. In British Columbia, this responsibility resides with the GPEB Investigations group.

We found that the GPEB Investigations group was doing an effective job in meeting its responsibilities. Factors we considered in making our assessment are discussed below.

Clear reporting requirements—As we noted earlier, BCLC policies and procedures require that incidents having a potential impact on gaming integrity be reported to GPEB Investigations (Section 86 reports). Both BCLC and GPEB audit processes indicate that service providers are meeting this requirement.

Does government adequately ensure that casino gaming activities are conducted honestly?

Competent staff—The Director of Investigations has been able to recruit a highly trained staff. Many have police backgrounds and some have specialty training (e.g., serious crime investigation, forensic accounting, homicide, polygraph).

Adequate authority—The group has the powers needed to take the appropriate actions. GPEB appoints investigators under section 81 of the Gaming Control Act. GPEB Investigations Division Investigators are also appointed as Special Provincial Constables under Section 9 of the Police Act. This gives the Investigations Division the authority to investigate Gaming Control Act offenses and some offenses under the Criminal Code.

Independence—The Director, Investigations reports to GPEB's General Manager who is independent of casino activities. The General Manager has the power under the Gaming Control Act to impose fines and penalties for various infractions of the Act. For example, registration and licenses can be withdrawn and monetary fines imposed. In addition, the Act creates offences under the Offence Act that, upon conviction, could result in penalties up to $200,000, 12 months in prison or both.

Under the Gaming Control Act, the responsibility of the General Manager, and the Branch, is to ensure the integrity of gaming in the province through regulatory and enforcement activities. We note that the General Manager also has non-statutory responsibilities that include advising the government on broad policy, standards and regulatory issues. Some matters on which advice is given might affect the achievement of the government's economic and fiscal policy priorities for gaming. In our view, it is possible that, in some circumstances, it might be difficult for the General Manager to take strong enforcement actions having potentially negative consequences on government's economic and fiscal priorities for gaming.

We believe that good management practices call for a separation of incompatible functions. This principle is plainly demonstrated in government's decision to separate the responsibility for conducting and managing gaming (British Columbia Lottery Corporation's mandate) from the responsibility for regulating gaming (Gaming Policy and Enforcement Branch's mandate).

Does government adequately ensure that casino gaming activities are conducted honestly?

We recommend that the integrity of gaming should be confirmed as the primary responsibility of GPEB's General Manager.

Investigations results—GPEB Investigations group reported that it opened a total of 2,649 investigation files during 2004 involving activities such as:

- money laundering,
- loan sharking,
- theft,
- counterfeit currency, and
- post registration investigations.

All files are investigated and a course of action is determined. Some files require little additional work by the Investigations group; others add to a body of evidence collected by the group ("intelligence" information) that may help in a future investigation. A limited number of files involve extensive work that leads to significant actions (e.g., criminal charges, barring individuals from entering casinos, sanctions being levied by GPEB against gaming workers or service providers).

The Investigations unit is also in the process of working to establish a special RCMP task force in British Columbia. The primary mandate of the RCMP Integrated Illegal Gaming Enforcement Team (IIGET) is enforcement of laws pertaining to illegal gaming activities. In accordance with the present mandate of IIGET, it will only investigate unlawful activity in casinos in isolated incidents when requested by police of the jurisdiction.

GPEB reporting to the Legislative Assembly on the state of gaming integrity is inadequate

The primary responsibility of GPEB is to ensure the overall integrity of gaming in British Columbia. We found, however, that the annual report of the Ministry of Public Safety and Solicitor General provides no accountability information on the state of gaming integrity. Given the growth of casino gaming in the

province and the significant provincial revenue it generates, we think that the Legislative Assembly and public would benefit by receiving regular information on:

- the risks to gaming integrity in the province and the activities undertaken to address those risks; and
- the measures used by GPEB to assess the overall state of gaming integrity in British Columbia and its current assessment.

We recommend that GPEB report annually to the Legislative Assembly on the state of gaming integrity in provincial casinos.

Does government adequately ensure that it receives its correct share of casino gaming revenue?

In most businesses there are risks associated with unrecorded sales and cash theft. To help mitigate these risks, successful businesses keep written evidence of each item sold. Periodic reconciliation between sales and inventory records then allows them to detect and control unrecorded sales. Cash theft in many businesses is also managed through the use of cash registers and locking devices to limit unauthorized access.

Casinos present unique risks because, unlike most businesses, they involve high volumes of cash and it is impractical to record each bet made. As a result, the casino industry relies on accounting in aggregate (i.e., the revenue generated by a slot machine or gaming table is accumulated for a period of time such as an entire day and then that total amount is recorded in the accounting records). The accuracy of this form of accounting relies heavily on access, documentation and personnel controls to prevent and detect errors and irregularities.

Access controls in the casino industry involve physical safeguards such as locking devices to prevent unauthorized access to cash, game chips and business records. Also, sensitive areas of a casino are typically under continuous camera monitoring by surveillance staff. Documentation controls involve maintaining systems that allow gaming activities to be documented, reviewed, authorized and verified as required. These controls involve having casino employees document work they have performed in order to verify the casino's financial activity. Personnel controls involve a chain of command for the approval of, and accountability for, transactions. Personnel controls include gaming staff supervision, secondary review and approval of transactions, and segregation of job duties so that gaming activity recording, custody, and accountability for casino assets are performed independently. The casino industry normally incorporates combinations of access, documentation and personnel controls to minimize revenue and cash risks.

To ensure that government receives its correct share of casino revenue, we expected to find access, documentation and personnel controls implemented to ensure that:

- all casino gaming activities are recorded;
- cash is safeguarded at all times;

Does government adequately ensure that it receives its correct share of casino gaming revenue?

- gaming revenue is accurately recorded in BCLC's accounting records; and
- government's share of casino revenue is collected.

We concluded that government is adequately ensuring that it receives its correct share of casino revenue. Controls have been implemented to ensure that gaming activities are recorded, cash is safeguarded at all times, gaming revenue is accurately recorded in BCLC's accounting records and government's share of casino revenue is collected.

BCLC adequately ensures that casino gaming activities are recorded

We found that BCLC has implemented a number of controls to minimize the risk of unrecorded gaming activities. The controls used are described below.

Recording table game activities

Typically, the greatest risk of unrecorded revenue in casinos is with table games because they involve substantial wagers and considerable human interaction—for example, dealers handle gaming chips and cash, patrons buy chips at the gaming tables, the tables need to be restocked with chips, and the accumulated cash needs to be removed for counting and depositing. All of these activities present opportunities for errors to be made or for a dishonest employee to understate revenue to conceal cash theft.

To mitigate the risks inherent in table games, we found that BCLC installed the Casino Management System (CMS) in all casinos during 2004. CMS has an improved ability to document table activities. Previously, these activities were documented manually by a table game supervisor and used subsequently to help account for table game revenue.

CMS includes a computer touch screen at each gaming table, on which data is entered to keep track of the opening and closing balance of chips at a table, chip requests from the vault, player headcount and cash deposited into the cash ("drop) box. This provides BCLC and casino management with direct documentation about table game activities in advance of the drop box being counted. The result is that any errors or irregularities can be detected in a timely manner.

CMS also employs personnel controls so that, for example, a supervisor cannot enter data that should be entered by a dealer and vice versa. Since some staff fulfill more than one job (e.g., dealer and cash counter), the system requires them to decide, at the start of a shift, the job they are doing that day. They are then prevented from changing that information for 24 hours. This control prevents an employee from acting, for example, as a dealer and then being able to count the cash—a situation that would provide a dishonest employee with the opportunity to understate revenue to conceal cash theft. Personnel controls are also used extensively to monitor table game activities (including patron wagers, chip purchases, and winner payouts) to ensure that errors and irregularities do not occur. Other examples of personnel controls include dual verification of the opening and closing balances of chips at a table, chip requests from the vault and acceptance of the chips when they are delivered to the table.

As well, CMS also uses access controls. For example, a table game supervisor has to sign into the system to open a table game and then a dealer must sign in before play can start. Other examples of access controls at table games include keeping playing chips in locked chip trays with key access restricted to authorized staff. And table games include drop boxes that are used to store cash received from patrons until it is removed, counted and recorded in the financial records.

Recording slot machine activities

A key documentation control used to ensure that slot machine activities are completely and accurately recorded is that all machines are equipped with internal meters that aggregate the cash deposited by patrons, patron winnings, and the amount that should be in the machine's drop box. All slot machines in the province are electronically linked to BCLC's headquarters in Kamloops through a system called Casinolink. This allows BCLC to capture meter readings electronically from all slot machines so that it can calculate, in advance, the revenue that should be reported by the service provider each day.

Another important documentation control related to slot machines is that a slot door opening register must be kept inside each slot machine. Anyone opening any slot door must record the event on the register. The register provides information to prove compliance with established policies and procedures.

Does government adequately ensure that it receives its correct share of casino gaming revenue?

Personnel controls related to slot machines include supervisory staff who continuously observe activities. Also, only authorized service provider personnel, BCLC Gaming Systems Coordinators, BCLC Casino Site Operations Managers and BCLC Operational Gaming Auditors are authorized to open a slot machine door. Another personnel control feature is that any service provider or BCLC employee who needs to put his or her hands inside a machine must be accompanied by a second registered employee. These controls help to ensure that a dishonest employee is not given the opportunity to alter the machines in any way that might affect the recording of gaming activities.

A variety of access controls protect the integrity of the meter information. For example, the meters are in a locked part of the machine that is accessible only by BCLC staff using a key that is kept under locked storage in a secure area of the casino. All slot machine activities and key storage are under continuous monitoring by surveillance staff. As with table games, all slot machines include drop boxes that are used to store cash received from patrons until it is removed, counted and recorded in the financial records.

BCLC adequately ensures that cash is processed securely and accurately

Throughout each day, the cash accumulated at gaming tables and slot machines must be removed and transported to the casino count room where it is counted, recorded and prepared for deposit. All of these activities present opportunities for errors to be made or for a dishonest employee to steal cash. A variety of controls mitigate these risks.

Removing cash from gaming equipment

An important access control related to cash processing is that every table game and slot machine has a locked drop box that is used to store cash until it is removed. To avoid theft, drop boxes are secured with locks and the keys are kept under strict control. Gaming workers who remove drop boxes from gaming equipment (the "drop team") are required to wear coveralls without pockets to minimize the chance of theft.

Personnel controls related to cash drops require that access to drop boxes be limited to only authorized service provider staff

who are independent of gaming activities, and the accounting department that records the cash receipts. Cash drops are carried out by a drop team consisting of a minimum of two staff members, one a supervisor and the other a security officer. These controls help to maintain an appropriate segregation of job functions as well as secondary review of drop box activities. There are also strict rules limiting access by unauthorized individuals to areas of the casino while cash drops are underway. All cash drops are monitored by the surveillance staff.

Documentation controls related to cash processing include the requirement for cash drops to be performed on a scheduled basis as approved by BCLC. Also, there must be a plan detailing the order in which the machines will be emptied, and a copy of the plan must be provided to surveillance and BCLC so that they can prepare to monitor the activities.

Cash counting and depositing

Once the drop boxes are removed from the gaming equipment, they are taken to a count room for counting and deposit preparation. A number of controls are in effect to help minimize the risk of cash theft at this stage of processing.

Access controls in the count room include restricted access to authorized personnel only, door locks and continuous monitoring by surveillance. Gaming workers counting cash are also required to wear coveralls without pockets to minimize the chance of theft.

Documentation controls require that all movements of cash into the count room be fully verified and documented. Also, the cash cage or drop team supervisor and a second registered employee must verify and sign the bank deposit. This helps to establish a record of cash movement as it moves through the various processes.

Personnel controls require that, during the count, there must be a minimum of two people present, one of whom may be the drop team supervisor. Once the cash has been counted, a deposit is prepared. The cash cage or drop team supervisor is also responsible for the bank deposit and a second registered employee must be present at all times when the bank deposit is being prepared. When the bank deposit is picked up a security officer must witness the procedure. This establishes a series of secondary reviews of activities to ensure that all cash is properly accounted for.

Does government adequately ensure that it receives its correct share of casino gaming revenue?

BCLC adequately ensures that gaming revenue is accurately recorded in its accounting records

After the cash from slot machines and gaming tables is counted, the service provider enters the results into BCLC's financial control system. An electronic comparison is then made with the data collected by BCLC's Casinolink and CMS systems. System access controls prevent the service provider from adjusting its figures after they have been entered.

We believe that this represents a significant documentation control feature because two independent sources of information about revenue (i.e., Casinolink and CMS system readings and the service providers physical cash counts) must be in agreement. Any discrepancies must be investigated and explained, though variances are typically small. Larger variances that do occur are usually the result of incorrect data entry and are quickly resolved (e.g., when a dealer inadvertently enters $200 as $2000).

Personnel controls are also used to help detect errors or irregularities in the recording of revenue in BCLC's records. Both BCLC's on-site staff and its Casino Finance staff in Kamloops provide an independent review of service provider reconciliations. Once satisfied as to the integrity of the revenue data, the Casino Finance group records it as the permanent data upon which it determines government's share of casino gaming revenue.

As an additional check of the completeness of casino revenue, Casino Finance also tracks table game, slot machine and total revenue in a number of different ways, including:

- this week versus last week;
- this week versus budget;
- this week versus the five-week average;
- this year to date versus budget year to date; and
- this year to date versus last year to date.

Does government adequately ensure that it receives its correct share of casino gaming revenue?

BCLC adequately ensures that it receives government's share of casino gaming revenue

Table game and slot machine revenues are accumulated daily by Casino Finance and a calculation is made of the service provider's share (i.e., 40% of table game revenues and 25% of slot machine revenues). Service providers are also credited with a Facility Development Fee (3% of total net win for each table game and slot machine) and 1% of table revenue for supplies purchased on behalf of their casinos. The residual balance is the amount owing to BCLC.

We found that calculations and adjustments are reviewed by a BCLC supervisor who makes a number of checks against casino reports in order to ensure that the amounts are balanced and reconciled. The amount is recorded as an account receivable and the casinos are invoiced each Monday. BCLC is then able to "sweep" the amount from the service provider's bank account (i.e., BCLC has access to the accounts and is able to withdraw the government's portion each week). Checks are made to ensure that the balances have been correctly transferred to BCLC's account.

Response by the Gaming Policy and Enforcement Branch and the British Columbia Lottery Corporation

Introduction

This response to The Office of the Auditor General of British Columbia was prepared by the Gaming Policy and Enforcement Branch (GPEB), on behalf of the Ministry of Public Safety and Solicitor General, Province of British Columbia, and the British Columbia Lottery Corporation (BCLC).

The contents of this response were confirmed with David Morhart, Deputy Solicitor General.

General Response

GPEB and BCLC are pleased to provide a formal response to the Office of the Auditor General's review entitled "Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos."

It is the strong consensus of both GPEB and BCLC that the report was positive, factually accurate and supportive of the directions the Province of British Columbia has taken in casino gaming over the past few years.

The Branch is committed to ensuring the overall integrity of gaming in British Columbia. As acknowledged in this report, on behalf of the Province, GPEB has taken many steps to mitigate the risk to this integrity through our thorough registration processes, investigative services and auditing procedures.

Similarly, BCLC is committed to ensuring the effective conduct and management of casino gaming in BC. The Corporation has made many significant improvements to the operating circumstances of BC's casinos since assuming responsibility for conduct and management of casinos and responds as necessary to the regulatory directions of GPEB.

The Key Findings section clearly shows the efforts have been worthwhile. The Auditor General notes that government is adequately ensuring:

- *Those who work in, or provide services to, the casino gaming industry meet high standards of honesty;*
- *That gaming equipment operates fairly in casinos;*
- *That gaming activities are conducted honestly; and*
- *That it receives its correct share of casino revenue.*

Response by the Gaming Policy and Enforcement Branch and the British Columbia Lottery Corporation

These findings by the Office of the Auditor General are a substantial endorsement of the framework that the Province has implemented to ensure the patrons of casino gaming, the assets of government, and the associated revenue are well protected.

Responses to Specific Recommendations

The Office of the Auditor General provided a number of specific, and generally technical, recommendations which GPEB and BCLC will use as a guide to improve certain aspects of the regulation, conduct and management of BC's gaming industry. The responses and comments of GPEB and BCLC to the recommendations follow.

Recommendations Regarding Registration of Industry Participants

(Recommendations 1 and 2, which both pertain to GPEB)

Recommendation 1: Key employees of GPEB and BCLC have their backgrounds rechecked every three to five years as is currently the case for gaming workers and service providers.

Ministry's action: GPEB will adjust its current clearance procedures and implement a five-year renewal process with conditions for senior staff in GPEB and BCLC.

Recommendation 2: All BCLC employees who help to ensure gaming integrity in casinos be registered by GPEB.

Ministry's action: GPEB agrees that all BCLC employees that help to ensure integrity in all forms of gaming in which BCLC is involved (including, but not limited to, casinos) should be registered by GPEB. GPEB will work with BCLC to identify which positions affect integrity and will implement a full registration process for all such BCLC employees.

Recommendations Regarding Certification of Gaming Equipment

(Recommendations 3 through 5, which all pertain to GPEB)

Recommendation 3: GPEB ensure that technical standards specific to British Columbia be developed and adopted to govern the function of gaming equipment in provincial casinos.

Ministry's action: This issue is currently being addressed as GPEB drafts a Technical Standards Document (TSD) for gaming equipment, gaming control systems, and lottery schemes offered via the Internet, which will be specific to British Columbia. These standards will be in place later this year.

Recommendation 4: GPEB obtain additional evidence to support its reliance on independent test facilities to evaluate BCLC gaming equipment.

Ministry's action: GPEB strongly believes the current level of standards and cross jurisdictional testing required of a facility is substantial. However, GPEB will investigate if any higher level of certification is achievable for testing facilities and if so will pursue that level of certification.

Recommendation 5: GPEB periodically review the work of BCLC Casino Quality Assurance group to support the branch's reliance on gaming equipment tests carried out by the group.

Ministry's action: GPEB agrees and will implement a review process in the near future. This process will include utilizing some independent testing laboratories that are able to provide the technical expertise necessary to assess BCLC's testing processes.

Recommendations Regarding the Conduct of Gaming Activities

(Recommendations 6 through 9, which all pertain to BCLC, and recommendations 10 through 13, which all pertain to GPEB)

Recommendation 6: BCLC update the public information it provides on its website pertaining to the odds of winning at slot machines.

BCLC Action: BCLC is currently preparing an updated gaming guide that will contain odds of winning at slot machines in British Columbia by denomination. The information will be easier to understand by the player and can be more efficiently kept up to date than the current guide. The guide will contain information regarding the functionality of slot machines, responsible gaming information including the Provincial Problem Gambling help line and other information pertaining to slot machine play. This guide will be designed in such a manner that the odds can be easily updated and maintained and kept current on a frequent basis. The guide will be available at all Casinos and Community Gaming Centers in British Columbia that offer slot machine play. This information will also be available on the BCLC website. The pamphlet and website will be completed by August 31, 2005.

Recommendation 7: BCLC report regularly to its Board of Directors on the results of the Operational Gaming Audit Program and each casino's state of compliance with prescribed policies and procedures.

BCLC Action: BCLC will report quarterly to BCLC'S Board of Directors. The status of individual casino compliance in relation to BCLC's Casino Standards Policies and Procedures will be provided to the Board.

Recommendation 8: BCLC implement the Surveillance Certification Program at the earliest possible date.

BCLC Action: BCLC has provided surveillance table game and slot training manuals to Service Providers outlining various table game procedures and slot machine functionality. The development of a complete training program curriculum is currently underway with the Justice Institute of British Columbia. The training will include a comprehensive curriculum which standardizes training covering all aspects of casino gaming operations. The training will cover all aspects of casino gaming including game protection which consists of slot machine and table game play, procedure auditing, staff and patron monitoring, security and usage of equipment, back of house procedures and observations, reporting procedures to BCLC and GPEB, evidence identification and handling, self exclusion and facial recognition, access controls, financial reporting to Financial Transactions and Reports Analysis Center of Canada (Fintrac), emergency procedures and financial verification procedures. At the completion of the curriculum development, a suitable delivery methodology will be undertaken. BCLC recognizes the surveillance department in casinos as being the major control center of a casino gaming operation and an extensive standardized surveillance training is required in order to effectively protect casino patrons, staff and assets. BCLC is committed to have a comprehensive surveillance operator training and certification program in place in British Columbia. The course development will be completed by March 31, 2006

Recommendation 9: BCLC insure that all casinos have approved Surveillance System Component Plans in place.

BCLC Action: BCLC is presently finalizing the approval of the remaining four Surveillance System Component Plans of the 20 casino style gaming facilities in British Columbia. Sixteen of the Surveillance System Component Plans have already been finalized and approved, and it is expected the remainder will be finalized by September 30th, 2005.

Recommendation 10: GPEB's Audit and Compliance group produce more timely audit reports.

Ministry's action: GPEB agrees with the recommendation. During the Auditor General's field work, GPEB staff raised this issue as one which needed attention and has already implemented some changes to address it. For instance, draft audit reports are now issued within 30 days of completion. In addition, GPEB aims to reduce the amount of time necessary for responses to draft reports by implementing changes such as; on-site post-audit de-briefing sessions with BCLC and casino management staff to ensure all parties understand the audit findings and issues needing to be addressed.

The GPEB audit procedures, which establish reliance on BCLC's conduct and management of casino gaming, include some replication of auditing procedures performed by BCLC. This agreed replication is necessary to provide independent validation that the control procedures said to be in place are functioning as intended.

Recommendation 11: GPEB's Audit and Compliance group obtain direct evidence to support its reliance on BCLC's automated casino reporting systems.

Ministry's action: GPEB agrees with this recommendation. The Audit and Compliance field work plan for 2005/06 includes a full review of the systems BCLC has in place in casinos to capture and manage processes and information. These systems include the Casinolink (slot machine management) system, the Integrated Voucher System (slot machine ticketing), the Casino Management System (table management) and the Casino Reporting System.

Recommendation 12: The integrity of gaming should be confirmed as the primary responsibility of GPEB's General Manager.

Ministry's action: No action is necessary, although GPEB would like to comment on this recommendation.

The primary purpose of the General Manager and GPEB, established in the Gaming Control Act, is to ensure the integrity of gaming and horse racing. This purpose is paramount to all other functions. The Act requires the General Manager to fulfill this role, at the expense of all other purposes. This role is, and remains, the position's primary purpose.

Response by the Gaming Policy and Enforcement Branch and the British Columbia Lottery Corporation

The responsibilities of the General Manager are broad, and include both controlling gaming in the province (through regulatory and enforcement activities) and advising the government on broad policy, standards and regulatory issues (of which some issues may affect government's economic and fiscal policies for gaming). Under law, these responsibilities cannot conflict.

Recommendation 13: GPEB report annually to the Legislative Assembly on the state of gaming integrity in provincial casinos.

Ministry's action: GPEB agrees with this recommendation and will implement an annual reporting process through the Solicitor General.

Derek Sturko
Assistant Deputy Minister & General Manager
Gaming Policy and Enforcement

Vic Poleschuk
President and CEO
British Columbia Lottery Corporation

Appendix A: Office of the Auditor General: risk auditing objectives and methodology

The Office has three lines of business:

- Attesting to the reliability of government financial statements;
- Assessing the quality of government service plan reports;
- Examining how government manages its key risks.

Each of these lines of business have certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology applied by the Office for assessing the management of risk within government programs and services, that is, risk auditing.

Risk Auditing

What are Risk Audits?

Risk audits (also known as performance or value-for-money audits) examine whether money is being spent wisely by government—whether value is received for the money spent. Specifically, they look at the organizational and program elements of government performance, whether government is achieving something that needs doing at a reasonable cost, and consider whether government managers are:

- making the best use of public funds; and
- adequately accounting for the prudent and effective management of the resources entrusted to them.

The aim of these audits is to provide the Legislature with independent assessments about whether government programs are implemented and administered economically, efficiently and effectively, and whether Members of the Legislative Assembly and the public are being provided with fair, reliable accountability information with respect to organizational and program performance.

In completing these audits, we collect and analyze information about how resources are managed; that is, how they are acquired and how they are used. We also assess whether legislators and the public have been given an adequate explanation

Appendix A: Office of the Auditor General: risk auditing objectives and methodology

of what has been accomplished with the resources provided to government managers.

Focus of Our Work

A risk audit has been described as:

> *...the independent, objective assessment of the fairness of management's representations on organizational and program performance, or the assessment of management performance, against criteria, reported to a governing body or others with similar responsibilities.*

This definition recognizes that there are two forms of reporting used in risk auditing. The first—referred to as attestation reporting—is the provision of audit opinions as to the fairness of management's publicly reported accountability information on matters of economy, efficiency and effectiveness. This approach has been used to a very limited degree in British Columbia because the organizations we audit do not yet provide comprehensive accountability reports on their organizational and program performance.

We believe that government reporting along with independent audit is the best way of meeting accountability responsibilities. Consequently, we have been encouraging the use of this model in the British Columbia public sector, and will apply it where comprehensive accountability information on performance is made available by management.

As the risk audits conducted in British Columbia use the second form of reporting—direct reporting—the description that follows explains that model.

Our "direct reporting" risk audits are not designed to question whether government policies are appropriate and effective (that is achieve their intended outcomes). Rather, as directed by the Auditor General Act, these audits assess whether the programs implemented to achieve government policies are being administered economically and efficiently. They also evaluate whether Members of the Legislative Assembly and the public are being provided with appropriate accountability information about government programs.

Appendix A: Office of the Auditor General: risk auditing objectives and methodology

When undertaking risk audits, we look for information about results to determine whether government organizations and programs actually provide value for money. If they do not, or if we are unable to assess results directly, we then examine management's processes to determine what problems exist or whether the processes are capable of ensuring that value is received for money spent.

Selecting Audits

All of government, including Crown corporations and other government organizations, are included in the universe we consider when selecting audits. We also may undertake reviews of provincial participation in organizations outside of government if they carry on significant government programs and receive substantial provincial funding.

When selecting the audit subjects we will examine, we base our decision on the significance and interest of an area or topic to our primary clients, the Members of the Legislative Assembly and the public. We consider both the significance and risk in our evaluation. We aim to provide fair, independent assessments of the quality of government administration and to identify opportunities to improve the performance of government. Therefore, we do not focus exclusively on areas of high risk or known problems.

We select for audit either programs or functions administered by a specific ministry or government organization, or cross-government programs or functions that apply to many government entities. A large number of such programs and functions exist throughout government. We examine the larger and more significant of these on a cyclical basis.

Our view is that, in the absence of comprehensive accountability information being made available by government, risk audits using the direct reporting approach should be undertaken on a five- to six- year cycle so that Members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. We strive to achieve this schedule, but it is affected by the availability of time and resources.

Appendix A: Office of the Auditor General: risk auditing objectives and methodology

Planning and Conducting Audits

A risk audit comprises four phases—preliminary study, planning, conducting and reporting. The core values of the Office—independence, due care and public trust—are inherent in all aspects of the audit work.

Preliminary Study

Before an audit starts, we undertake a preliminary study to identify issues and gather sufficient information to decide whether an audit is warranted.

At this time, we also determine the audit team. The audit team must be made up of individuals who have the knowledge and competence necessary to carry out the particular audit. In most cases, we use our own professionals, who have training and experience in a variety of fields. As well, we often supplement the knowledge and competence of our staff by engaging one or more consultants to be part of the audit team.

In examining a particular aspect of an organization to audit, auditors can look either at results, to assess whether value for money is actually achieved, or at management's processes, to determine whether those processes should ensure that value is received for money spent. Neither approach alone can answer all the questions of legislators and the public, particularly if problems are found during the audit. We therefore try to combine both approaches wherever we can. However, because acceptable results-oriented information and criteria are often not available, our risk audits frequently concentrate on management's processes for achieving value for money.

If a preliminary study does not lead to an audit, the results of the study may still be reported to the Legislature.

Planning

In the planning phase, the key tasks are to develop audit criteria—"standards of performance"—and an audit plan outlining how the audit team will obtain the information necessary to assess the organization's performance against the criteria. In establishing the criteria, we do not expect theoretical perfection from public sector managers; rather, we reflect what we believe to be the reasonable expectations of legislators and the public.

Appendix A: Office of the Auditor General: risk auditing objectives and methodology

Conducting

The conducting phase of the audit involves gathering, analyzing and synthesizing information to assess the organization's performance against the audit criteria. We use a variety of techniques to obtain such information, including surveys, and questionnaires, interviews and document reviews.

Reporting Audits

We discuss the draft report with the organization's representatives and consider their comments before the report is formally issued to the Legislative Assembly. In writing the audit report, we ensure that recommendations are significant, practical and specific, but not so specific as to infringe on management's responsibility for managing. The final report is tabled in the Legislative Assembly and referred to the Public Accounts Committee, where it serves as a basis for the Committee's deliberations.

Reports on risk audits are published throughout the year as they are completed, and tabled in the Legislature at the earliest opportunity. We report our audit findings in two parts: an Auditor General's Comments section and a more detailed report. The overall conclusion constitutes the Auditor General's independent assessment of how well the organization has met performance expectations. The more detailed report provides background information and a description of what we found. When appropriate, we also make recommendations as to how the issues identified may be remedied.

It takes time to implement the recommendations that arise from risk audits. Consequently, when management first responds to an audit report, it is often only able to indicate its intention to resolve the matters raised, rather than to describe exactly what it plans to do.

Without further information, however, legislators and the public would not be aware of the nature, extent, and results of management's remedial actions. Therefore, we publish updates of management's responses to the risk audits. In addition, when it is useful to do so, we will conduct follow-up audits. The results of these are also reported to the Legislature.

Appendix B: Office of the Auditor General: 2005/2006 reports Issued to date

Report 1 – April 2005

Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake; Performance Audit

Report 2 – May 2005

Joint Follow-up of 2001/2002: Report 1 Managing Interface Fire Risks and Firestorm 2003 Provincial Review

Report 3 – June 2005

Audit of the Government's Corporate Accounting System: Part 1

Report 4 – July 2005

Building Better Reports: Our Assessment of the 2003/04 Annual Service Plan Reports of Government

Report 5 – July 2005

Keeping the Decks Clean:
Managing Gaming Integrity Risks in Casinos

This report and others are available on our website at http://www.bcauditor.com

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